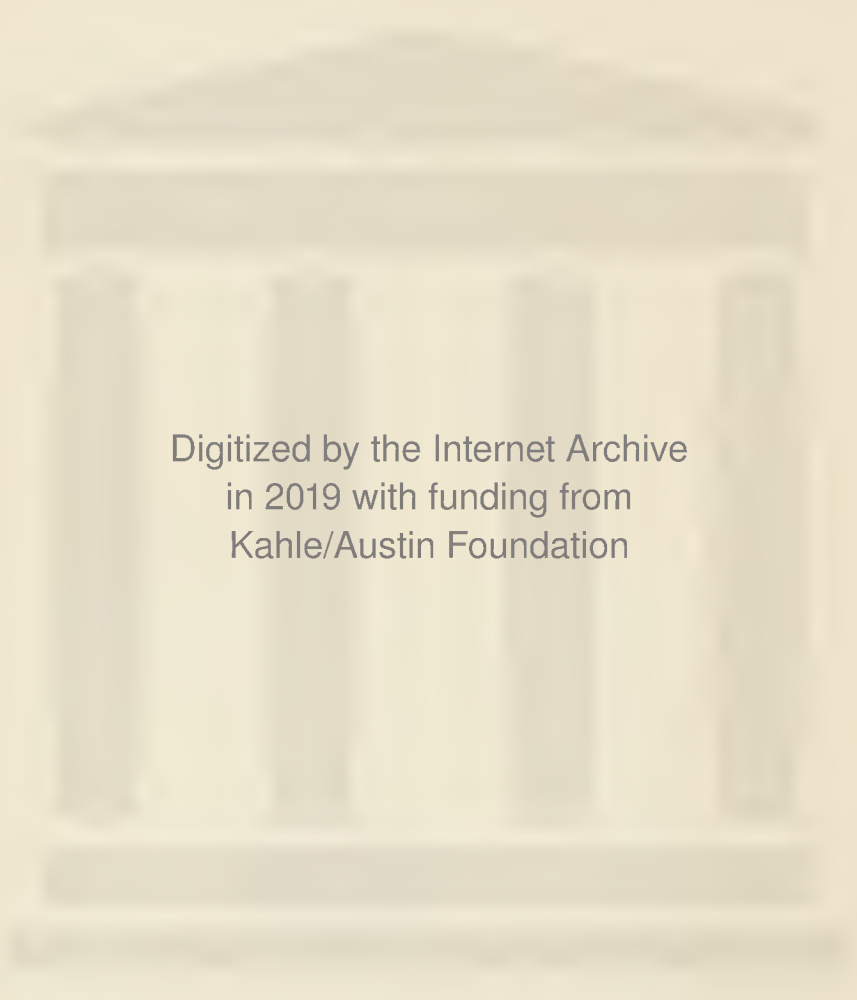


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PREFACE

This volume was prepared under the direct supervision of E. Ralph Perkins, who retired as Chief of the Foreign Relations Division on December 30, 1963, and was succeeded by S. Everett Gleason. The compilers of the volume were Almon R. Wright, and a former member of the Division, David H. Stauffer.

The Publishing and Reproduction Services Division (Jerome H. Perlmutter, Chief) was responsible for the technical editing of this volume and the preparation of the index. These functions were performed in the Historical Editing Section under the direct supervision of Elizabeth A. Vary, Chief, and Ouida J. Ward, Assistant Chief.

WILLIAM M. FRANKLIN
*Director, Historical Office,
Bureau of Public Affairs*

JANUARY 29, 1965.

PRINCIPLES FOR THE COMPILATION AND EDITING OF "FOREIGN RELATIONS"

The principles which guide the compilation and editing of *Foreign Relations* are stated in Department of State Regulation 1350 of June 15, 1961, a revision of the order approved on March 26, 1925, by Mr. Frank B. Kellogg, then Secretary of State. The text of the current regulation is printed below:

1350 DOCUMENTARY RECORD OF AMERICAN DIPLOMACY

1351 *Scope of Documentation*

The publication *Foreign Relations of the United States, Diplomatic Papers*, constitutes the official record of the foreign policy of the United States. These volumes include, subject to necessary security considerations, all documents needed to give a comprehensive record of the major foreign policy decisions within the range of the Department of State's responsibilities, together with appropriate materials concerning the facts which contributed to the formulation of policies. When further material is needed to supplement the documentation in the Department's files for a proper understanding of the relevant policies of the United States, such papers should be obtained from other Government agencies.

1352 *Editorial Preparation*

The basic documentary diplomatic record to be printed in *Foreign Relations of the United States, Diplomatic Papers*, shall be edited by

the Historical Office, Bureau of Public Affairs of the Department of State. The editing of the record shall be guided by the principles of historical objectivity. There shall be no alteration of the text, no deletions without indicating where in the text the deletion is made, and no omission of facts which were of major importance in reaching a decision. Nothing shall be omitted for the purpose of concealing or glossing over what might be regarded by some as a defect of policy. However, certain omissions of documents are permissible for the following reasons:

- a. To avoid publication of matters which would tend to impede current diplomatic negotiations or other business.
- b. To condense the record and avoid repetition of needless details.
- c. To preserve the confidence reposed in the Department by individuals and by foreign governments.
- d. To avoid giving needless offense to other nationalities or individuals.
- e. To eliminate personal opinions presented in despatches and not acted upon by the Department. To this consideration there is one qualification—in connection with major decisions it is desirable, where possible, to show the alternatives presented to the Department before the decision was made.

1353 *Clearance*

To obtain appropriate clearances of material to be published in *Foreign Relations of the United States, Diplomatic Papers*, the Historical Office shall:

- a. Refer to the appropriate policy offices of the Department and of other agencies of the Government such papers as appear to require policy clearance.
- b. Refer to the appropriate foreign governments requests for permission to print as part of the diplomatic correspondence of the United States those previously unpublished documents which were originated by the foreign governments.

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COLOMBIA

ENTRY OF COLOMBIA INTO A STATE OF BELLIGERENCY WITH GERMANY AND ADHERENCE TO THE UNITED NATIONS DECLARATION

821.00/1549 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, October 4, 1943—1 p. m.

[Received 5:35 p. m.]

1779. From an independent conservative source friendly to the Government, I am informed that it is being recommended to the President ¹ that he declare war against the Axis Powers, giving as a specific reason the action of Germany in holding the Pope as prisoner. This source stated that the Conservative Party would applaud the Government's action especially as the Liberal Party has in the past not been associated with a pro-Roman Catholic attitude. It is felt that such a move would not only divert public opinion . . . but would serve to unite the country.

LANE

740.0011 European War 1939/32222 : Airgram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, November 27, 1943—11:30 a. m.

[Received December 7—9 a. m.]

A-975. Reference my A-974, November 27, 11:15 a. m.² There is quoted below for the Department's information the text of my note no. 256 of November 27, 1943, delivered to the Minister of Foreign Relations in accordance with the Department's instructions:

"Excellency:

"It is with the deepest regret that my Government has learned of the unprovoked and barbarous attack recently made by a hostile force against the Colombian schooner *Ruby* and of the savage shooting of Colombian citizens contrary to all recognized rules of civilized warfare.

"My Government instructs me to express to Your Excellency its deepest sympathy for this act of vandalism against Colombian citizens and property. On behalf of this Embassy I also wish to convey to you our most sympathetic condolences on this occasion.

¹ Alfonso López.

² Not printed.

"I avail myself of this opportunity to renew to Your Excellency the assurances of my highest and most distinguished consideration."

LANE

740.0011 European War 1939/32051 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, November 27, 1943—11 a. m.

[Received 3 p. m.]

2142. With reference to two telephone conversations with Keith³ this morning, the Senate approved at 1:30 a. m. today by vote of 33 to 13 a resolution approving Colombian Foreign Minister's⁴ statement recognizing that Germany is in state of belligerency with respect to Colombia. As texts of Lozano's statement and Senate resolution⁵ were dictated to Keith am not telegraphing but confirming by airgram following his formal statement. Lozano made speech to Congress stating that position of Colombian Government is the same as attitude of Brazil towards Axis and emphasized that note of June 25, 1942, to Germany regarding sinking of *Resolute*⁶ has never been answered.

LANE

740.0011 European War 1939/32058 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, November 27, 1943—2 p. m.

[Received 8:20 p. m.]

2144. After expressing my satisfaction to Acting President Echandia⁷ today regarding the approval which the Senate had given the Government's expression of policy I inquired whether he could explain as an acknowledged constitutional expert what the constitutional significance is of the Senate's action.

The President said at first he wished to emphasize why the Government did not suggest to the Senate a declaration of war. He said that such a declaration would mean the enactment of martial law and suspension of constitutional guarantees and as it had been explained in Congress last evening, such action was not even taken in the United States when we went to war. On the other hand, the Foreign Min-

³ Gerald Keith, Assistant Chief, Division of the American Republics.

⁴ Carlos Lozano y Lozano.

⁵ For Spanish texts of these documents and Lozano's account of events leading to the state of belligerency, see Lozano, *Memoria de Relaciones Exteriores*, 1944, pp. LXXI-LXXX.

⁶ The Colombian schooner was sunk off Providencia Island, June 23, 1942, by a German submarine. Six members of the schooner's crew were killed and three wounded by machine-gun fire from the submarine.

⁷ Darío Echandía served as Acting President when President López was in the United States from November 19, 1943, to May 16, 1944.

ister's declaration and the Senate's approval amount to a declaration of a state of belligerency against the Axis. He said that this would bring about much closer relationships between Colombia and those countries which had declared war against the Axis and was exactly similar to the action taken by Brazil. Dr. Echandía said that it would bring about much closer cooperation with the United States and he hoped that an early meeting might take place between Colombian and United States military and naval authorities with the view of determining what steps Colombia could take in the common cause.

I referred to the agreement reached in September 1942⁸ by which Colombia granted certain military privileges to the United States and asked how these provisions would be affected by this latest development. Echandía said that privileges which had previously been granted can now be amplified.

I inquired what would be the status of enemy nationals in Colombia, some of whom we might wish to have questioned and interned in the United States. The President said that the situation with regard to these persons is now greatly simplified and even though the Government might not feel that it could take steps without congressional approval, such approval is already impliedly granted by the Senate resolution of last night. He said that the important point in the Senate resolution is that it promises to grant to the Government any steps which the Government may feel necessary to take not only to repress enemy activities here but also those of a military nature.

He said that he wished to call on me constantly now for advice and assistance and I naturally placed myself at his services.

On leaving I inquired of the President whether his Government had contemplated adhering to the Atlantic Charter.⁹ He replied vigorously "Yes we wish to become one of the United Nations". He said that steps to this end would be taken very shortly.

I have an appointment with Foreign Minister at 4 p. m.

LANE

740.0011 European War 1939/32060 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, November 27, 1943—7 p. m.
[Received November 28—12:49 a. m.]

2150. Minister for Foreign Affairs Lozano informed me this afternoon that following a meeting of the Cabinet immediately subsequent

⁸ For correspondence on the military cooperation between the United States and Colombia, see *Foreign Relations*, 1942, vol. vi, pp. 141 ff.

⁹ *Ibid.*, 1941, vol. i, p. 367. For text of the Declaration of the United Nations (incorporating the Atlantic Charter), see *ibid.*, 1942, vol. i, p. 25. Notification of Colombia's adherence to the Declaration was given on December 22, 1943, and the signature of its representative was attached on January 17, 1944.

to my call on the President today, the following decisions were reached:

1. Colombia wishes to sign the pact of the United Nations and is sending full powers to President Alfonso López to sign in the name of Colombia, it being the feeling that this will give the act a greater dignity and significance.

2. The Government will shortly issue decrees expropriating property belonging to Axis nationals as a subvention to recompense Colombians for damages committed by Germany.

3. A decree is to be issued immediately calling to the colors recruits for military service.

Steps will be taken in accordance with resolution XV of Habana¹⁰ and the appropriate resolutions of Rio de Janeiro¹¹ to provide for drastic treatment of espionage in Colombia. Foreign Minister suggested that the United States and Colombia effect an exchange of notes to provide for the deportation of dangerous Nazi nationals.

In addition to the foregoing, the Foreign Minister said that it would be very much appreciated if we would permit a few Colombian officers to study military conditions at one of our fronts.

He also said that he would very much appreciate receiving definite information from our military or naval authorities in the Canal Zone regarding the investigation which has been made concerning the fragments of shrapnel fired on the survivors from the *Ruby* from the supposedly German submarine. Lozano said that Laureano Gómez¹² is adopting an "incredulous" attitude regarding the nationality of the submarine and that any proof which we can furnish regarding its nationality would be very helpful. I informed Lozano confidentially that according to information received from the Naval and Military Attachés, German mines have recently been found at the Caribbean entrance to the Panama Canal. Any information I can officially furnish him on this matter would also be appreciated. Lozano said that Spanish Minister¹³ has asked for audience which Lozano assumes is for purpose of transmitting German disavowal of responsibility for sinking of *Ruby*. For that reason Lozano would appreciate urgent reply.

Finally, I inquired whether, in view of his statement before the Senate last night to the effect that the Government considers that German [*Germany*] is in a state of belligerency against Colombia, Colombia is in a state of belligerency against Germany. He replied definitely in the affirmative. He said his Government wishes now to

¹⁰ Resolution XV of the Second Meeting of the Foreign Ministers of the American Republics, July 21-30, 1940, Department of State *Bulletin*, August 24, 1940, p. 136.

¹¹ For the resolutions of the Third Meeting of the Foreign Ministers of the American Republics, January 15-28, 1942, see *ibid.*, February 7, 1942, pp. 117 ff.

¹² Leader in the Conservative Party.

¹³ Gonzalo de Ojeda y Brooke.

act internationally exactly as though it were in the war, but that for the internal reasons which the President explained to me this morning it must be considered as a state of belligerency. He added that for practical reasons there is no difference between the two.

LANE

740.0011 European War 1939/32061 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, November 27, 1943—8 p. m.
[Received November 28—12:55 a. m.]

2151. It would be very much appreciated if the Department would send me urgent replies to the two points contained in my telegram No. 2150, November 27, 7 p. m. requiring answers:

(a) Possibility of permitting Colombian officers to visit our fronts;
(b) Result of investigation regarding nationality of submarine which sank the *Ruby* and fired on the survivors. I have also requested Military and Naval Attachés to request this information direct from authorities in Canal Zone. Naval Attaché is also requesting authority from Comfifteen¹⁴ to inform Colombian Government that no United States Navy submarines have been in the Caribbean recently and that U. S. Army and Navy aviators have orders to fire on any submarine seen in the Caribbean.

LANE

740.0011 European War 1939/32208

The Colombian Chargé (Vargas Nariño) to the Secretary of State

[Translation]

WASHINGTON, November 27, 1943.

MR. SECRETARY: I have instructions from my Government to inform Your Excellency that as a result of the sinking of the Colombian schooner *Ruby* by a German submarine in Atlantic waters and the assassination of four of its crew and the serious injuries inflicted upon other members of the ship's company by the same submarine, the Colombian Government, through a declaration made by the Minister of Foreign Relations, recognized the state of belligerency in which Germany has placed itself with respect to Colombia and declared that the Republic will take all measures to defend its external security and to repel future aggressions as well as to intensify its military collaboration with the nations of this continent now at war.

¹⁴ Commandant of the Fifteenth Naval District.

The Senate of the Republic, after listening to the statements of the Minister of Foreign Relations and analyzing the situation in an extensive debate, approved and ratified by an appreciable majority the international statement adopted by the Government.

I take the opportunity [etc.]

ALBERTO VARGAS NARIÑO

740.0011 European War 1939/32061 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, November 28, 1943—3 p. m.

1463. While the Department is awaiting further reports from the War and Navy Departments on points contained in your telegram 2151 of November 27, 8 p. m., you may now state to the Foreign Minister that a German submarine is known to be operating in the area where the *Ruby* was sunk and confirmation is given that the *S. S. Pompoon* is overdue enroute from Panama to Barranquilla.

The above statements may be given publicity by the Foreign Office if it so desires.

The Commandant of the Fifteenth Naval District is being instructed by the Navy Department to inform you of the contents of his press release regarding sinking of two American ships and one Panamanian ship overdue. This information is to be used only after its receipt from Commandant and with text unchanged.

The result of any investigation concerning fragments of shrapnel mentioned in your cable 2150, November 27, 7 p. m. will be communicated to you at earliest moment possible.

HULL

740.0011 European War 1939/32084 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, November 29, 1943—3 p. m.

[Received 8:56 p. m.]

2162. Although members of the Government express cordial enthusiasm regarding Colombia's new international position and the liberal press emphasizes the importance of the Government's decision there is virtual public apathy regarding latest developments. There are no flags flying nor are there any public demonstrations. Having witnessed popular enthusiasm following anti-Nazi action on part of the Yugoslav and Costa Rican Governments it is to me almost unbelievable that life in Bogotá can continue without any interruption whatever on the occasion of the Colombian Government having taken such a momentous decision. The Consul at Cali reports "a surprising

lack of interest on the part of the local populace regarding Colombia's belligerency."

LANE

740.0011 European War 1939/32060 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, November 29, 1943—8 p. m.

1466. You may wish to inform Foreign Minister that the communication of adherence to United Nations Declaration, referred to in your 2150 of November 27, should be addressed to the Secretary of State either by Colombian Foreign Minister or by Colombian Chargé here. For form of adherence see Iranian communication ¹⁵ in radio bulletin of September 13, 1943. See also our circular telegram of August 10, 1943 ¹⁶ on this subject. We shall be glad to arrange with President López for him to sign in the name of Colombia, after we have received communication of adherence.

In conveying this information to Foreign Minister please express the gratification of this Government upon learning of Colombia's decision to adhere.

HULL

740.0011 European War 1939/32208

The Secretary of State to the Colombian Chargé (Vargas Nariño)

WASHINGTON, December 2, 1943.

SIR: I acknowledge the receipt of your note of November 27, 1943, informing me that, as a result of the sinking by a German submarine of the Colombian schooner *Ruby* with the loss of Colombian lives, the Colombian Government has recognized that Germany has placed itself in a state of belligerency with respect to Colombia.

I have been pleased to observe that the international position adopted by the Government was approved and ratified by a large majority in the Colombian Senate and that all measures will be taken to repel future aggressions and to intensify military collaboration with the nations of this continent actually at war.

This Government, in expressing its deep sympathy for the tragic aggression of our common enemy which has resulted in the cruel loss of Colombian nationals, regards with admiration and gratification the declaration of the Colombian Government which exemplifies the historic determination of the Colombian people to maintain the principles of freedom and justice.

Accept [etc.]

CORDELL HULL

¹⁵ For note of the Iranian Minister, September 10, see Department of State *Bulletin*, September 11, 1943, p. 166.

¹⁶ Not printed.

740.0011 European War 1939/32178a : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, December 2, 1943—8 p. m.

1481. In connection with question of Colombia's adherence to United Nations Declaration it would be desirable for us to have specific information that Colombia's state of belligerency is considered equivalent to Colombia's being "at war" with Germany. The quoted expression is used in the Declaration. In your discretion, please consult Foreign Minister and cable reply. He will understand that this information is needed to meet our responsibilities to the other United Nations as depository for the Declaration.

HULL

740.0011 European War 1939/32166 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, December 3, 1943—1 p. m.

[Received 9:50 p. m.]

2213. I saw Minister for Foreign Affairs this afternoon in connection with Department's 1481, December 2, 11 [8] p. m. Dr. Lozano said that he would see President Echandía at once and would call me as soon as he had had discussion with him. He asked me, however, to emphasize to Department that Colombian Government does not wish to take precipitate action especially in view of the absence of President Roosevelt from Washington¹⁷ and that he would like to give careful consideration to the drafting of the note to the Department expressing desire of Colombia to adhere to the Declaration of the United Nations.

The Minister said that prior to confirmation by the President of the views of the Colombian Government the official opinion is that belligerency and a state of war are synonymous terms but that Colombia wishes to make one distinction: It considers itself to be in a defensive and not in an offensive state of war. In other words, he continued, Colombia is not going to send troops to a second front in Europe or to any other part of the world. He illustrated the difference between an offensive and a defensive war by comparing a personal duel, as recognized in certain countries, to an attack on a private individual peacefully walking in the street. A duel would not be legally justifiable in Colombia but a private citizen would be justified under

¹⁷ The President was absent from Washington from November 11 to December 17 to attend wartime conferences at Cairo and Tehran. For documentation relating to these conferences, see *Foreign Relations, The Conferences at Cairo and Tehran, 1943*.

Colombian law to defend himself from a criminal attack. Colombia now considers itself to be in the position of the private citizen attacked without justification.

LANE

821.20/280 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, December 8, 1943—2 p. m.

[Received 8:12 p. m.]

2259. Meeting was held at Ministry of War this morning at which were present Minister of War,¹⁸ Chief of Staff¹⁹ and members of General Staff, General Brett²⁰ and staff, Admiral Train²¹ and staff, and myself.

Meeting which lasted 2½ hours was taken up by very frank discussion of Colombia's problems and needs and practical manner in which Colombia can cooperate with the United States in the prosecution of the war in this sector.

It was decided that the most effective contribution which Colombia can make is: (1) patrolling of Caribbean coast of Colombia between Guajira and Turbo by Colombian destroyers and aircraft; (2) request us to make survey as to possibility of constructing two or three airports on the Pacific Coast and one airport on the Guajira. Minister of War expressed entire approval of these two points.

It was further decided that General Espinel, Chief of Staff, and group of officers will shortly visit Canal Zone to work out in greater detail the manner in which Colombia can help. On the other hand General Brett promised all assistance in instructing Colombian General Staff on matters of intelligence, sanitation, et cetera.

I am gratified to state that the evident understanding, sympathy and tactfulness shown by General Brett contributed greatly to the success of the meeting and should greatly assist in the future in carrying on further technical conversations.

The Minister of War did not raise the question of an increase in Lend-Lease²² but said that if Colombia is to patrol the Caribbean Coast effectively there are certain types of equipment such as radio detectors which will be necessary. General Brett suggested that this be taken up by Colombian Embassy in Washington stating specific

¹⁸ Alberto Arango Tavera.

¹⁹ Gen. Domingo Espinel.

²⁰ Gen. George H. Brett, Commanding General, Caribbean Defense Command.

²¹ Adm. Harold C. Train, Commander in Chief, Southeastern Pacific Fleet.

²² For correspondence concerning the Lend-Lease Agreement, signed March 17, 1942, see *Foreign Relations*, 1941, vol. VII, pp. 1 ff. For text of the Agreement, see *ibid.*, 1942, vol. VI, p. 189.

need of whatever equipment is required. I assume General Brett will report directly to War Department regarding technical matters discussed.

It was agreed that General Espinel will visit Canal Zone from December 27 to 31.

LANE

740.0011 European War 1939/32393

The Colombian Chargé (Vargas Nariño) to the Secretary of State

[Translation]

No. 3333

WASHINGTON, December 11, 1943.

MR. SECRETARY: Complementing my communication dated November 27 last, with reference to the Colombian attitude toward the sinking by a German submarine of the schooner *Ruby*, I have the honor to transcribe below to Your Excellency the texts of the official declaration of the Government and the resolution adopted by the Senate of the Republic on the night of November 26:

OFFICIAL COMMUNIQUÉ OF THE GOVERNMENT OF COLOMBIA

"The German Government has carried out against the Colombian nation a series of attacks which have the character of unprovoked acts of war, thus placing itself in a 'state of belligerency' with respect to the Republic of Colombia. We have no responsibility whatever in this situation, but we cannot fail to recognize it, just as we cannot escape its effects and consequences.

"The National Government makes a public statement of this fact and declares that it is placed under the obligation to take necessary steps to defend the Colombian nation from outside aggression and to preserve its sovereignty, its honor and its rights. The Government does not feel that these measures should interrupt either the constitutional normalcy of the Republic or the ordered and regular progress of its legal institutions.

"In fulfillment of the agreements signed at Panama City,²³ Habana and Rio de Janeiro, the Government will bring these facts to the knowledge of the American nations, and it expresses its desire to seek closer bonds with the States of the Continent, in order to participate with greater vigor in continental defense and in order to strengthen its own security."

RESOLUTION ADOPTED BY THE SENATE OF THE REPUBLIC

"The Senate of the Republic adopted, by a vote of 33 to 13, the following resolution:

"The Senate of the Republic, having heard the official declaration of the Government concerning the acts of aggression which force

²³ First Meeting of the Foreign Ministers of the American Republics, September 23-October 3, 1939, Department of State *Bulletin*, October 7, 1939, pp. 321-344.

it to recognize that Germany is in a state of belligerency against Colombia, and, in accord with the address of the Minister of Foreign Relations, expresses its approval of such declarations as imply, in its opinion, an affirmation of the right of Colombia to assume a position corresponding to that taken by the Reich.

"The Senate states to the nation and to the peoples of America that it is ready, in defense of the country's dignity and of the democratic system, to take every step tending to repel the attacks of which they are the object, and to support such measures as the Executive Organ of the Public Power may adopt to such end."

At the same time, I have the honor to advise Your Excellency that the House of Representatives subsequently ratified, by unanimous vote, the stand taken by the Colombian Government.

I avail myself [etc.]

A. VARGAS

740.0011 European War 1939/32339 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, December 15, 1943—4 p. m.

[Received 8:49 p. m.]

2302. Foreign Minister inquired of me today whether the United Nations Declaration is considered by us to have the juridical status of a treaty or of a mere declaration. Lozano said that the Government wishes to determine whether or not it will be necessary to submit the adherence of Colombia to Congress for the latter's approval.

I replied that I would consult the Department immediately but that in my personal opinion the declaration is not considered by the Department to have the same status as a treaty as I did not believe the adherence of the United States had been submitted to the Senate for approval. I likewise said that from my experience in Costa Rica I did not believe that the Costa Rican Congress had approved the Costa Rican adherence.

It would be appreciated if the Department would telegraph me its views as soon as possible for oral transmittal to the Foreign Minister.

LANE

740.0011 European War 1939/32339 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, December 16, 1943—8 p. m.

1548. You may inform Foreign Minister, with reference to your 2302, December 15, 4 p. m., that this Government considers the decla-

ration by United Nations a "Declaration", as stated in the title of the document; that consequently it has not been submitted to the Senate as a treaty.

HULL

740.0011 European War 1939/32061

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, December 17, 1943.

DEAR MR. LANE: In the Department's telegram 1463 of November 28, 3 p. m. you were advised that the result of any investigation concerning fragments of shrapnel would be communicated to you as soon as possible, and subsequently on the 30th in our cable 1472,²⁴ the Department stated that the shell fragments were being sent to Washington for examination.

The Department has now received a communication from the Navy Department that because the fragments were too small and there were too few of them, exact identification was not possible.

The foregoing is sent to you for your own strictly confidential information and only to wind up the matter as it is indicated in the Department's cable would be done. The Department feels that the question of the fragments is now inconsequential in as much as there has never been doubt of the nationality of the submarine and the Colombian Government had so stated at the time of declaring its belligerency.

While it seemed desirable for you to have this information, it is our belief here that the matter should be allowed to die, that no report to the Foreign Office will be necessary, and that no publicity, certainly, should be given as the whole question is a closed issue.

With kindest personal regards,

Sincerely

[File copy not signed.]

740.0011 European War 1939/32425: Telegram

The Colombian Minister for Foreign Affairs (Lozano) to the Secretary of State

[Translation]

Bogotá, December 22, 1943.

[Received December 22—5:50 p. m.]

I have the honor to inform Your Excellency that the Government of Colombia has decided to adhere to the Declaration by the United Nations signed at Washington on January 1, 1942. This Government

²⁴ Not printed.

has sent full powers for signing this document to His Excellency Alfonso López, titular President of the Republic, who is at present in New York. In taking this step, which constitutes a logical and natural evolution of her preceding international attitudes, Colombia ratifies her willingness to cooperate by all means within her power with the free nations of the world, involved, like herself, in a decisive combat against the totalitarian political system. In defense of the right and liberty of the peoples unjustly attacked on various occasions by the German Reich my country has been compelled to proclaim a state of belligerency towards that Power and desires to bind itself closely to the bloc of nations united in the solidary effort against the common enemy and to collaborate more closely with the United States and the other belligerent nations of America in the defense of this continent. I request Your Excellency to take the necessary steps so that our plenipotentiary can sign the declaration to which I have referred, and I ask likewise that this action be made known to the Governments interested. I express cordial wishes for the victory of the United Nations and for the increasing prosperity and greatness of the United States and I repeat to Your Excellency at this opportunity the assurances of my highest consideration.

CARLOS LOZANO Y LOZANO

740.0011 European War 1939/32425 : Telegram

*The Secretary of State to the Colombian Minister for Foreign Affairs
(Lozano)*

WASHINGTON, December 27, 1943.

I have received your telegram of December 22, 1943 stating that in defense of the right and liberty of peoples unjustly attacked by the German Reich, Colombia has been compelled to proclaim a state of belligerency toward that nation; that Colombia desires to bind itself closely to the nations united against the common enemy and to collaborate more closely with the United States and the other belligerent nations of America in the defense of this continent; and that the Government of Colombia has decided to adhere to the Declaration by United Nations and has sent full powers for signing this document to His Excellency, President Alfonso López, who is now in New York.

Colombia's action in thus formally aligning itself with the United Nations brings to thirty-four the number of freedom-loving nations which have pledged themselves to employ their full resources in the struggle against the common enemy. On behalf of this Government, as depository for the Declaration by United Nations, I take great pleasure in welcoming Colombia into the ranks of the United Nations.

Appropriate arrangements are being made for President López to sign the Declaration.^{24a}

Please accept [etc.]

HULL

AGREEMENT CONTINUING IN EFFECT THE AGREEMENT OF NOVEMBER 23, 1938, AND SUBSEQUENT RENEWED AND EXTENDED AGREEMENTS BETWEEN THE UNITED STATES AND COLOMBIA WHICH PROVIDED FOR A NAVAL MISSION FROM THE UNITED STATES TO COLOMBIA, EFFECTED BY EXCHANGE OF NOTES, SIGNED JULY 23 AND AUGUST 7, 1943

[For text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 337, or 57 Stat. (pt. 2) 1054.]

ARRANGEMENTS TO PROCURE FOR THE UNITED STATES STRATEGIC MATERIALS FROM COLOMBIA²⁵

811.20 Defense (M) Colombia/435a : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, January 8, 1943—9 p. m.

28. If you consider it likely that negotiations for final arrangements between this Government and Colombia on future conduct of rubber program will not be concluded within the near future, such as the next 2 weeks, it is suggested that it may be possible to reach some interim arrangement pending the final outcome which would permit action now. It is noted, for instance, that one of the principal bases for the view that the Caja's²⁶ monopolistic powers are unconstitutional is that they include rights with respect to private as well as public lands. It might be that the Colombian authorities would be willing to allow Rubber Reserve²⁷ to enter into financing arrangements providing for the development of private lands before the overall understanding is concluded.

These suggestions are submitted merely for your consideration and any action on them is naturally subject to your judgment as to the probable course of the negotiations. It seems clear that if advantage is to be taken of the present dry season plans must be pushed as quickly as possible.

HULL

^{24a} The effective date of Colombia's adherence was December 22, 1943.

²⁵ For negotiations for the purchase of rubber by the United States from Colombia in 1942, see *Foreign Relations*, 1942, vol. vi, pp. 170 ff.

²⁶ Caja de Crédito Agrario, Industrial y Minero.

²⁷ Rubber Reserve Company, a governmental instrumentality, directed by the Secretary of Commerce. Its functions pertaining to the development of foreign rubber sources and the procurement of rubber were transferred to the Rubber Development Corporation, a subsidiary of the Reconstruction Finance Corporation, on February 20, 1943.

811.20 Defense (M) Colombia/455

The Ambassador in Colombia (Lane) to the Secretary of State

No. 1368

BOGOTÁ, January 9, 1943.

[Received January 15.]

SIR: I have the honor to refer to my telegram No. 44 of January 9, 4 p. m., 1943,²⁸ and to enclose copies of the draft note covering the strategic materials program and the proposed operating agreement covering the rubber program which were the subjects of the discussions outlined in my telegram under reference.

Respectfully yours,

ARTHUR BLISS LANE

[Enclosure 1]

Draft Note Covering Strategic Materials Program

[BOGOTÁ,] January 7, 1943.

In accordance with resolutions emanating from the Second Consultative Meeting of Foreign Ministers of the American Republics,²⁹ approved in Colombia by Law 20 of 1941, and also in accordance with resolutions adopted at the Third Consultative Meeting of Foreign Ministers of the American Republics held in Rio de Janeiro³⁰ concerning strategic materials, the Government of Colombia and the Government of the United States of America agree to the following:

1. As a practical expression of Continental Solidarity, the Colombian Government will make available to the Government of the United States all basic and strategic materials or products, with the exceptions listed in paragraph 3, found in public lands of the Republic of Colombia, required in hemispheric defense.

2. The Colombian Government will grant exclusively to the United States Government or to its agencies Export Licenses for these products found on private lands.

3. It is agreed that Colombia will retain such strategic materials or products as it may require for its internal consumption, it being understood, however, that the quantity of these materials or products will be limited to minimum essential requirements and that the quantities will be fixed in advance by mutual agreement. Further, that Colombia will take all necessary measures to conserve and to prohibit the accumulation of such materials or products.

4. The foregoing does not grant any Government, person or entity exclusive rights in the production, purchase, sale, transportation or

²⁸ Not printed.

²⁹ See *Second Meeting of the Ministers of Foreign Affairs of the American Republics, Habana, July 21-30, 1940, Report of the Secretary of State* (Washington, Government Printing Office, 1941), p. 59.

³⁰ For Final Act, see Department of State *Bulletin*, February 7, 1942, p. 117.

internal commerce of such products within the territory of the Republic of Colombia.

5. The Government of Colombia will grant exemption of all duties, taxes, imposts, excises, or governmental charges imposed by Colombia or any political or administrative subdivision thereof on all merchandise, supplies, equipment, or materials which the Government of the United States or any of its agencies must ship to Colombia, for the exclusive purpose of stimulating production or procurement of strategic materials. In addition, all capital imported by the Government of the United States or any of its agencies for the purposes mentioned above or for any operations in connection thereto will be exempt, in the same manner, by the Colombian Government, of all taxes, charges or restrictions of any nature whatsoever.

6. Neither the Government of Colombia nor any political or administrative subdivision thereof shall impose any income, franchise, personal property, or other tax, impost, excise, or governmental charge on any United States Governmental agency or on any of its officers or employees (except such officers or employees who are citizens of Colombia).

7. The United States Government will purchase the products referred to in this agreement from producers or owners in accordance with terms of operating agreements entered into between the two Governments or their respective agencies.

8. The Government of the United States will stimulate the production of these products in Colombia and this will be accomplished in accordance with terms of the Operating Agreements.

9. The United States Government, with the approval of the Colombian Government will construct in Colombia necessary works for the stimulation of production and development as well as transportation of these products.

10. All operating arrangements entered into as a result of this agreement will be agreed upon by the appropriate Ministry or administrative department of the Colombian Government and the duly authorized representative or agency of the United States Government with the approval of the Minister of Foreign Affairs and the Ambassador or the principal diplomatic representative of the United States of America.

[Enclosure 2]

Proposed Operating Agreement

[BOGOTÁ,] January 9, 1943.

In order to secure maximum tonnage quickly, it is proposed that a six man Board be named to formulate rubber procurement policies

involving joint operations between Caja de Crédito and Rubber Reserve. It is recommended that the Board be composed of a chairman, who will be the Minister of Foreign Affairs or his representative, two members to be named by the Colombian Government, and the remaining three members to be named by the United States Government.

Joint operations of the Caja and Rubber Reserve will include the following functions, although either agency may also carry on these same functions independently:

1. Purchase rubber from all classes of producers.
2. Establishment of commissaries and supply depots.
3. Expenditure of development funds for public improvements such as transportation and communication facilities.
4. Advancement of funds for the stimulation of the exploitation of rubber (where loans of this character are made "notice of loan" will be filed with Caja or Rubber Reserve, as the case may be, whereupon the respective agency will use its best efforts not to buy rubber from a borrower unless that borrower can show satisfactory evidence of liquidation of loan. This is not to be construed as imposing responsibility for any loss which the lender might suffer due to the fact that either Caja or Rubber Reserve, by the error of its representatives or the fraudulent claims of the seller, bought rubber which had been mortgaged to any other party.)
5. Caja will advise Rubber Reserve whenever it has rubber ready for shipment, giving amount, class, and quality. On receipt of such advice, Rubber Reserve will arrange for establishment of credit in favor of Caja for the value of the shipment to be made, minus export tax which Rubber Reserve will pay direct to the National Government on receipt of export license.

In addition to the right of arbitration and final decision in any question involving interpretation of the above points, the Board will have the following additional duties:

1. Determine the schedule of minimum prices by grades and classes which authorized purchasers for export will pay to various classes of sellers, such as producers, entrepreneurs, middle men, plantation proprietors, etc. Also determine minimum prices by grades which will prevail in the event of transactions between any two classes of sellers. All prices will be published and posted throughout the country by the Board.
2. Act on appeals by Rubber Reserve to reconsider direct production loan borrowers whose names were previously submitted to and rejected by the Caja. This applies to direct production loan recipients proposed by Rubber Reserve, all of whose names will be submitted in advance, to the Caja.
3. Determine and publish prices on articles of food, clothing, and equipment necessary to workers employed in the procurement of strategic materials. As a matter of cooperation, Rubber Reserve may at its discretion absorb part of the cost of such articles or of the freight and transportation cost. Where Rubber Reserve makes

available such supplies, prices will be determined by Rubber Reserve and approved by the Board.

4. Pass on all proposed projects involving the construction of roads, airfields, and other transportation and communication facilities which may be construed as of permanent or semi-permanent character. After approval by the Board, projects will be negotiated by the proposing agency with the appropriate Colombian Government Agency having jurisdiction.

5. Caja and Rubber Reserve will submit to the Board and each other monthly reports of their transactions in rubber stating amounts purchased by classes and grades, location of stocks, tonnage exported, tonnage delivered to local manufacturers for consumption, and tonnage in port towns awaiting shipment.

Decisions of the Board will be based upon a majority vote of all six members.

All the foregoing the subject of such variation as may be required to permit Rubber Reserve to carry out previous commitments.

811.20 Defense (M) Colombia/436 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, January 11, 1943—4 p. m.

[Received 8:02 p. m.]

48. For Bicknell,³¹ Rubber Reserve, from Davis.³² Upon arrival conferred with Ambassador Lane, La Spina, Bahr³³ and our attorney. After discussing the proposed form and content of notes to be exchanged and revised operating agreement which had been drawn up by La Spina and Bahr, these were referred to Ambassador Lane who made some revisions and submitted them informally to the Minister for Foreign Affairs with a statement that they were submitted *ad referendum*. The Ambassador conferred informally with President López and Dr. Turbay, Minister for Foreign Affairs, about rubber problems, and presented me to the President and Miguel López.³⁴ I conferred at some length with latter. On January 9 Minister for Foreign Affairs Turbay called conference in his office. See Embassy's telegram No. 44, January 9, 4 p. m.³⁵ Colombians brought strong pressure for definite commitment relative to tire plant. They expressed hope that we could make our cooperation available within one year. Ambassador Lane after making statement relative to this matter requested me to state our Government's position based on my recent conferences in Washington. I assured Colombian officials our Gov-

³¹ J. W. Bicknell, Vice President, Rubber Reserve Company.

³² Roy T. Davis, representative of the Rubber Reserve Company.

³³ Albert F. La Spina and E. G. Bahr, Rubber Reserve Company representatives.

³⁴ Brother of President Alfonso López and President of the Caja de Crédito.

³⁵ Not printed.

ernment is constantly keeping in mind its promise to cooperate and that it will promptly lend its assistance when international situation permits. I stated it would be very difficult to set time limit within which cooperation would be available. We did not make any statements that would indicate that we can change position previously taken about plant. Dr. Turbay left for Washington yesterday.³⁶ Although not now acting as Minister for Foreign Affairs he may approach State Department about tire factory.

Ambassador Lane and La Spina are of the opinion that if we could now satisfy Colombian authorities relative to tire plant we could obtain more liberal operating agreements on strategic materials. I concur in this opinion, although aware that definite promise offers many difficulties. See Embassy's telegram No. 45, January 9, 11 p. m.³⁷

Copies of suggested notes and operating agreement forwarded to you by diplomatic pouch January 10.³⁸ [Davis.]

LANE

S11.20 Defense (M) Colombia/463 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, January 19, 1943—8 p. m.

[Received January 20—12:25 a. m.]

132. Reference my number 119, January 18, 7 p. m.³⁷ Acting Minister for Foreign Affairs today handed me informal memorandum stating that representatives of the Governments of Colombia and of the United States of America have discussed following bases for an exchange of views between the Ministry of Foreign Affairs and the Embassy of the United States of America in Bogotá:

[Here follows text of informal memorandum.³⁹]

Acting Minister stated that if our Government is in agreement in principle with the foregoing Colombian Government will address to us a note along the foregoing lines to which we would answer that we are in agreement.⁴⁰

Please telegraph urgently Department's views so that there may be the least delay possible.

LANE

³⁶ Temporarily succeeded by Alberto González Fernández. On February 11, 1943, Francisco José Chaux took over the duties of the Ministry for Foreign Affairs.

³⁷ Not printed.

³⁸ See draft note covering strategic materials and proposed operating agreement, pp 15 and 16, respectively.

³⁹ For substance of the provisions of the memorandum and the position of the State Department and the Rubber Reserve Company on each, see telegram No. 96, January 24, 1 p. m., to the Ambassador in Colombia, p. 22.

⁴⁰ See note from the Ambassador in Colombia to the Colombian Acting Minister for Foreign Affairs, February 2, p. 26, and footnote 59, p. 28.

811.20 Defense(M) Colombia/472 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, January 20, 1943—10 p. m.

[Received January 21—4:13 a. m.]

142. Reference your 71, January 18, 8 p. m.⁴¹ Final negotiations for air-rubber agreement delayed pending termination of over-all agreement with Colombian Government on strategic material program. Present status as follows: Colombian Government through Ministry of War has submitted revised version of contract which with four exceptions is substantially identical to original draft. The Colombian contract in addition is based on principle of complementary agreements to Habana and Rio Conference resolutions (same principle as over-all strategic material negotiations). Four exceptions are:

1. Requirements that Colombian engineers draw all plans and specifications.

2. United States pay for purchase, lease or other indemnities including legal costs for any private lands used as sites.

3. Requirement that all improvement, buildings, equipment, material, et cetera, used in programs revert *ipso facto* without cost to Colombian Government at termination of contract.

4. The Colombian Government and Defense Supplies⁴² each have right to terminate contract on 6 months' notice at end of 4 years, otherwise 10 years' duration.

It is our belief that all of these four points can be revised to conform with terms in the original draft without difficulty.

LANE

811.20 Defense(M) Colombia/476 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, January 23, 1943—11 a. m.

[Received 8:38 p. m.]

150. Reference my No. 132, January 19, 8 p. m. As La Spina is concerned over the fact that the suggested exchange of notes relates only to rubber and not to other strategic materials also, I discussed question with President López last evening inquiring whether he had any objection in principle to exchange of notes being all-inclusive. President said he had no objection but he would wish to consult his brother Miguel. This he did by telephone in my presence. President then advised me that according to his brother the Ministry of

⁴¹ Not printed.⁴² The Defense Supplies Corporation, a U.S. Government purchasing agency operating under the Secretary of Commerce.

National Economy wished first to dispose of rubber question, especially as Caja has as yet no authority to act as sole agent for purchase and exportation of cinchona. Decree so authorizing Caja has not been issued because of apprehension that constitutionality will be attacked as was the case on rubber.

In addition to foregoing argument advanced by Miguel López it is evident that Government would prefer to concentrate on rubber program before dealing with other strategic materials for the following reasons: (a), political expediency and bargaining advantage of insisting on tire factory and (b), advisability of forestalling further criticism of Caja regarding lack of results on rubber program and friction with Rubber Reserve. Our position is somewhat weak in now insisting on inclusion of all strategic materials in proposed exchange of notes as we made no objection when Turbay stated to us on December 23 that he would prefer to dispose of rubber question prior to reaching an agreement on other materials. (See second paragraph of enclosure of despatch No. 1332 of December 31, 1942.⁴³)

I informed President that we are fearful that general strategic materials program may be seriously delayed unless it is included now with rubber, as otherwise separate negotiation and exchange of notes may be necessary with respect to each strategic material in which we are interested.

President said he would have no objection to our discussing with Colombian Government officials advisability of adding other strategic materials to proposed exchange of notes.

I am accordingly endeavoring to have such meeting convoked for early next week.

Please see my telegram No. 151, January 23, noon⁴⁴ for further suggestions regarding text of proposed exchange of notes.

LANE

811.20 Defense(M) Colombia/474 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, January 23, 1943—noon.

[Received 5 : 33 p. m.]

151. Reference is made to my telegram No. 132, January 19, 8 p. m., and my telegram No. 150, January 23, 11 a. m. The following additional observations are submitted following discussions with Davis, La S[pina] and Bahr :

1. We consider it unwise to refer specifically to articles 2, 3, and 10 of decree 1480 in view of Attorney General's opinion that it is uncon-

⁴³ Not printed.

⁴⁴ *Infra*.

stitutional.⁴⁵ We suggest that paragraph 2 should be redrafted to read as follows:

"The Government of Colombia is agreeable to authorize the Rubber Reserve Company to make direct purchases of rubber and to export that product and to grant to the Company for this purpose the same facilities which Caja de Crédito Agrario, Industrial y Minero now enjoys, it being understood that the Rubber Reserve in taking charge of these facilities should assume the same obligations which control the Caja and fulfilling also the following conditions:"

Foregoing suggestion approved by Urdaneta.⁴⁶

2. As paragraph 2-*a* appears to us ambiguous we suggest the following redraft:

"Rubber Reserve will inform the Commission of the zones in which it desires to carry on its activities and such zones will be approved by the Commission and then submitted for the approval of the Government, which will issue special licenses for this purpose."

We consider it important that exclusive right to work specific territories should not be given to Caja and to Rubber Reserve as it might then be alleged that internal monopoly exists and hence be attacked on ground of unconstitutionality.

3. As paragraph 2-*b* does not exactly express the understanding reached at meeting of January 9 to the effect that only personnel not of Colombian or United States nationality would be cleared through the Government of Colombia, we suggest the following redraft:

"In providing for its administrative and technical personnel, both in its offices and its agencies, Rubber Reserve will give preference to the employment of citizens of Colombia or the United States. Rubber Reserve will refer to Caja, for its prior approval, the names of all administrative and technical personnel which it desires to employ who are not citizens of Colombia or of the United States and will indicate the functions and the places for which they will be employed."

LANE

811.20 Defense (M) Colombia/463: Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, January 24, 1943—1 p. m.

96. Embassy's 132, January 19, 8 p. m. Department has discussed memorandum with Rubber Reserve and following comments represent our joint views.

We have only three general reservations. First, the new arrange-

⁴⁵ These articles provided the Caja de Crédito with authority to make direct purchases of rubber. The negotiators were proposing to give the Rubber Reserve Company the same authority.

⁴⁶ Roberto Urdaneta Arbelaes, legal aide of the Rubber Reserve Company.

ments contemplate that Rubber Reserve will obtain approval from the Colombian Government or various of its branches prior to taking action with respect to individual transactions. We believe that the program would be expedited if only general approval were required and if consequently individual items did not have to be submitted. Our specific suggestions are contained below as to paragraphs 2 (a) and 2 (d). Second, we are not clear as to the extent to which the Caja's monopolistic powers are terminated and free trade restored; as to this, see comments on paragraph 2. Third, the tire plant, discussed later.

Following are specific comments on paragraphs of corresponding number in memorandum:

1. The idea of a Commission seems to us good if it functions efficiently. It is suggested that the American members consist of the head Rubber Reserve man in Colombia, the head BEW⁴⁷ man there and if you approve a representative designated by the Embassy, possibly Livengood.⁴⁸ We would like to be informed as to the proposed Colombian representatives prior to their official designation. The success of the Commission will depend to a substantial extent on the representatives chosen.

2. Rubber Reserve is entirely willing to assume the obligations proposed in the named articles of the decree. It does not seem desirable, however, that the Caja and Rubber Reserve should together have exclusive rights to purchase within the country and hence jointly possess monopolistic rights. It is assumed that the Caja's monopolistic rights will be terminated and free trade in rubber restored and that both Caja and Rubber Reserve shall be entitled to purchase at fixed prices but not to the exclusion of others, except that the Rubber Reserve might be designated as the sole ultimate purchaser for export.

(a) This appears to contemplate an orderly process, but we are somewhat concerned about the resulting delays. Would it not be possible to have these zones determined by the Commission, which in case of any disagreement would report the proposal to the Government for decision. We also suggest that it is unnecessary to institute any licensing system and that a recorded approval will be sufficient. The procedure set forth in your (a) would seem more appropriate if Rubber Reserve contemplated any direct production operations or direct employment of laborers, but since its activities are to be limited to contracts for financing producers and contracts for supplementary services not involving direct operations, we trust that the procedure may be simplified.

⁴⁷ Board of Economic Warfare.

⁴⁸ Charles A. Livengood, Counselor of Embassy.

(b) and (c) satisfactory.⁴⁹

(d) The items specified seem too restricted.⁵⁰ We suggest adding as sub-paragraph (4) "Transportation equipment, such guns and ammunition as shall be approved by the Ministry of War, and any other goods required for the rubber program which are not procurable in Colombia."

We suggest that it will involve a substantial loss of time if individual licenses must be obtained from the Ministry of Hacienda through the Ministry of National Economy. The difficulties which would be encountered under this system are illustrated by difficulties in recent months under a similar system where it has proved impossible to obtain the necessary authorization for specific items in order to meet shipping schedules. We suggest as an alternative or possibly as an agreed-upon implementation of the present language that a blanket license good for 6 months be issued covering all shipments destined to Rubber Reserve against Rubber Reserve's agreement that it will ship only items within the specified categories and will at the beginning of the 6 months' period file schedules of its contemplated shipments.

(e) It is assumed that the exemptions referred to will cover funds transferred to Colombia for the payment of salaries of Rubber Reserve personnel.⁵¹

3. We consider this provision undesirable so far as termination date is concerned. If it contemplates the extension of the rubber agreement beyond December 31, 1946, its adoption would require us to re-negotiate the rubber agreements with 15 other countries and colonies. We feel that this would have a most undesirable effect on the whole program. If it contemplates a termination of the rubber agreement prior to December 31, 1946, in the event of the cessation of hostilities prior to that date, we think it would deter the investment of funds in rubber production and the organization of enterprises for that purpose, since we regard it as necessary to have a fixed period of substantial duration to give the necessary encouragement.

We regret that provision concerning tire plant is not possible of fulfillment. Even if we recommended high priorities on new equipment and material required and made exceptional efforts to press for completion, it would be impossible to give definite assurances that tire factory could be put in operation this year.

⁴⁹ Item (b) provided that the Rubber Reserve Company would refer for prior approval to the Colombian Government the names of proposed personnel, and item (c) provided that the Company would guarantee to Colombian employees the benefits of Colombian social security and pay certain transportation expenses of employees.

⁵⁰ These items were tools, machinery, food, and drugs, which were to be exempt from customs duty.

⁵¹ These exemptions covered the obligation to invest a specified percentage of the funds imported in Colombian national defense bonds.

Following summarizes reasons.

(1) Highest priority equipment would be required for new equipment consisting of electrical mechanisms, cables, switchboards, motors, etc. Such electrical equipment is required for use in submarines, torpedo boats, fighting ships and land equipment for the fighting forces, and the War Production Board advises that it would be unwilling to grant priority to obtain such equipment for additional tire plants. Goodrich has been unable for 2 years to secure such equipment to put its Cuban plant in operation, although plant is otherwise complete.

(2) Aside from new equipment, while there is idle tire equipment in this country, it is impossible to be sure we may not be called upon to put this equipment into operation to satisfy actual war needs. For instance a Ford tire plant was recently dismantled and shipped to Russia to produce tires for the fighting front.

(3) While it is, of course, a matter for Colombian determination it is believed here that a small tire plant of the kind contemplated will be uneconomical both during and after the war. During the war it is doubted that Colombia can produce tires substantially more cheaply than they can be obtained from Brazil. After the war the rate of production in Colombia would be so low as to make it impossible to compete with production costs of factories in other countries in the absence of high protective tariffs. Even in Brazil and Argentina, with much larger markets than Colombia has, tariff walls have been necessary with resulting increased costs to consumers.

(4) The procedures now established contemplate that Colombia's requirements for tires will be met from here or Brazil. The recent arrivals from Brazil and the recent emergency shipment from here should allay local doubts on this score. We are preparing a separate cable on retreading equipment for Colombia. Initial studies indicate need for two additional retread plants and if further investigation confirms need we would be prepared to arrange export.

Full memorandum on foregoing four points being sent airmail. As suggested by you, Department expects to talk with Turbay ⁵² within the next few days.

Our position on this has been consistent since the proposal was first raised last spring and the actual situation regardless of our wish to cooperate on this point makes it impossible to give any encouragement to the Colombian authorities at this time.

HULL

811.20 Defense(M) Colombia/481 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, January 25, 1943—6 p. m.

[Received 9:27 p. m.]

159. With reference to paragraph 2 of my telegram No. 151 ⁵³ and

⁵² Dr. Turbay had left for Washington on January 10. He resumed his post in Colombia on May 5.

⁵³ Dated January 23, noon, p. 21.

my telephone conversation with Cissel⁵⁴ today, we suggest that a re-draft of paragraph 2-a, which was suggested as an alternative by Urdaneta, be considered:

"Rubber Reserve will be able to develop its activities, in the same manner as Caja, in all production zones, but it must inform the Commission in advance of the zones in which it intends to carry on its work. The Government will authorize the respective licenses.["]⁵⁵

LANE

S11.20 Defense (M) Colombia/528

*The American Ambassador in Colombia (Lane) to the Colombian Acting Minister for Foreign Affairs (González)*⁵⁶

No. 161

BOGOTÁ, February 2, 1943.

EXCELLENCY: I have the honor to acknowledge the receipt of Your Excellency's note no. CM. 174 of February 2, 1943, reading in translation as follows:

"In accordance with Resolution XV of Havana,⁵⁷ approved by Law 20 of 1941 of the Republic and with a desire to making more effective its contribution to the defense of the continent, the Government of Colombia has found it desirable to introduce the following modifications and amplifications with respect to the regulations regarding the exploitation of rubber and to the agreement in force between the Caja de Crédito Agrario, Industrial y Minero and the Rubber Reserve Company:

"1. The Government of Colombia is agreeable to the constitution of a mixed commission charged with directing the general policy regarding rubber and supervising its application. This commission would be composed of three representatives of the Government of Colombia and three of the Government of the United States of America.

"2. The Government of Colombia is agreeable to allow any persons or firms to act as purchasers of rubber, perillo, balata and other natural gums at prices which are not lower than the minimum prices authorized by the Government, it being understood that such persons or firms shall notify the nearest local authorities of their intention to act in this capacity, indicating the zones where they will carry on their activities and assuming the obligation to sell for export, to the Caja de Crédito Agrario, Industrial y Minero or to the Rubber Reserve Com-

⁵⁴ T. Ross Cissel, Assistant Chief, Division of Defense Materials of the Department of State.

⁵⁵ In telegram No. 113, January 27, 1943, to the Ambassador in Colombia, the Department stated that it was satisfied with this alternative. (S11.20 Defense (M) Colombia 481).

⁵⁶ Copy transmitted to the Department by the Ambassador in his despatch No. 1557, February 3; received February 12.

⁵⁷ Resolution XV of the Second Meeting of the Foreign Ministers of the American Republics defined an act of aggression and provided for consultation among themselves when such an act was committed. See Department of State *Bulletin*, August 24, 1940, p. 136.

pany, rubber and other natural gums. The competent authorities will issue the necessary permission and transmit to the Ministry of National Economy the names of authorized purchasers. The Ministry of National Economy will have authority at any time to cancel such permission.

"Rubber Reserve is accorded the same facilities in relation to the exploitation, trading and exportation of rubber, perillo, balata and other natural gums which have been granted to the Caja de Crédito Agrario, Industrial y Minero, and Rubber Reserve will assume the same obligations which Caja de Crédito has assumed under the following conditions:

"a). Rubber Reserve shall be able to carry on its activities in all production zones and in the same way as the Caja, provided it gives prior notice to the commission, to which point 1 refers, of its intention to carry on its activities in determined zones. The Government of Colombia will issue respective licenses for the operations of Rubber Reserve in such zones;

"b). The technical and administrative personnel which Rubber Reserve employs in Colombia, both in its offices and in its agencies and establishments of exploitation, shall preferably be of Colombian or United States nationality. To ensure agreement between both parties in this respect, Rubber Reserve will transmit to the Ministry of National Economy for its prior approval, the names of technical or administrative personnel which it desires to employ in Colombia, indicating their functions and the place in which they will perform them;

"c). Rubber Reserve or its agents will guarantee to the Colombian personnel which it may employ in its exploitations the security and social assistance which Colombian law provides; and Rubber Reserve or its agents shall take charge of round trip transportation expenses of those workers or groups of workers who may be contracted in regions distant from those in which they will work;

"d). The Government of Colombia is disposed to grant to Rubber Reserve Company exemption from customs duties for the importation of machinery and necessary elements for carrying on its activities, that is:

- "1. Tools and agricultural machinery for the purpose of exploiting rubber;
- "2. Tools and machinery for the construction of public works which are to be constructed in accordance with agreements in force;
- "3. Drugs and canned foods intended for the establishments of Rubber Reserve in distant regions;
- "4. Transportation equipment necessary for the activities of Rubber Reserve, such as automotive vehicles, boats, etc.;
- "5. Arms and ammunitions necessary for the defense of the personnel of Rubber Reserve, with the previous approval of the Ministry of War; and
- "6. Any other articles necessary for the exploitation of rubber which cannot be obtained in Colombia.

"It is understood that drugs, foods and other products imported under this agreement and intended for sale in production centers through commissaries or other means, shall be sold at cost price at such production centers.

"The exemptions to which this agreement refers shall be requested by Rubber Reserve from the Ministry of Hacienda and Public Credit through the Ministry of National Economy, which will authorize them with its approval.

"e). The Government of Colombia is agreeable to exempting Rubber Reserve Company from the obligation which Law 45 of 1942 provides, of investing in bonds of national economic defense to the amount of twenty percent of funds which it imports into the country in foreign exchange for the development of its activities. Rubber Reserve Company will make the necessary requests of the Ministry of Hacienda and Public Credit through the Ministry of National Economy, which will authorize them with its approval.

"f). Rubber Reserve and Caja will grant to each other reciprocal transportation and other facilities which they grant to third parties, in accordance with concrete bases which they may establish by direct agreement between them.

"3. In view of the fact that the Government of Colombia considers the arrangements to facilitate exploitation of rubber as a political contribution on its part to the war effort of the United Nations, and not as a transaction of a strictly commercial character, it desires that December 31, 1946, be fixed as the date for the termination of such arrangements, both Governments being able to terminate them by mutual agreement earlier than that date, in view of the general economic situation and of the desires of Colombia and of the United States.

"The Government of Colombia understands that the Government of the United States of America will lend its very decided collaboration in order that Rubber Reserve Company may take advantage of the new facilities offered and intensify its activities in the country, increasing the volume of the production of rubber and contributing with this to the development of the regions in which such activities are to be carried on.

"The Government of Colombia understands also that the conversations now going on will be carried on actively regarding the collaboration of the Government of the United States for the early establishment of a tire factory in Colombia, in accordance with the statement of the Embassy of the United States to the Ministry of Foreign Affairs in its note no. 32 of July 1, 1942."⁵⁸

I have the honor to inform Your Excellency that my Government confirms the understanding which is expressed in your note under acknowledgment.⁵⁹

I avail myself [etc.]

ARTHUR BLISS LANE

⁵⁸ *Foreign Relations*, 1942, vol. VI, p. 188.

⁵⁹ The Ambassador reported in his telegram No. 228, February 4, 1943, 4 p. m., that the exchange of notes had taken place and that the agreement became effective on February 2 (811.20 Defense (M) Colombia/512).

811.20 Defense(M) Colombia/524 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, February 9, 1943—7 p. m.

[Received 10:22 p. m.]

265. Reference my No. 150, January 23, 11 a. m. President López informed me today that he has instructed the Acting Minister for Foreign Affairs to proceed with negotiation of exchange of notes covering strategic materials other than rubber. Am seeing González Fernández tomorrow and trust that conversations will continue promptly.

LANE

811.20 Defense(M) Colombia/472 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, February 11, 1943—7 p. m.

175. Reference your 142, January 20, 1943, 10 p. m. The Department and Defense Supplies agree that the four proposed changes are undesirable. If, however, some concessions along these lines seem to you necessary in order to expedite the final agreement, there is no particular objection to covering number 1 by revising paragraph 6-(a) in agreement as it now stands to read as follows:

“Make available qualified personnel of its Air Force, Civilian Aviation Authority and other governmental agencies and qualified engineers to advise and assist in the program. The Defense Supplies Corporation agrees to furnish such specialized personnel as is not readily available in Colombia.”

The Department feels, and Defense Supplies agrees, that, now that this issue has been raised, it is very important to avoid giving the Colombian Government the impression that we would be opposed, as a matter of principle, to Colombian personnel however well qualified. It would seem equally important to avoid language which might commit Defense Supplies, in any particular case, to accept available Colombian personnel as to whose qualifications there might be a reasonable doubt.

With regard to number 2, it is assumed that there are ample public lands that could be used or made available by Colombia for this purpose. It would also seem that the proposed provision might open the door to abuse and tend to establish a dangerous precedent.

Assuming that the new Rubber Agreement with Colombia will expire by its terms December 31, 1946 and that it will not be renewed, the fourth provision would perhaps not be objectionable provided an escape clause for Defense Supplies, along the lines of the present

12-(b), is retained. Furthermore, when the term provisions in the Agreement with Peru are finally settled,⁶⁰ it might be possible to consider certain modifications of paragraph 12 in the Colombian Agreement. At the present time, however, number 4 in your telegram would not be acceptable.

Please keep the Department advised of further developments in these negotiations.

HULL

811.20 Defense (M) Colombia/546 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, February 20, 1943—11 a. m.

[Received 2:21 p. m.]

326. To Rosenthal, Board of Economic Warfare, from La Spina. In our negotiations with the Colombian Government through the Embassy endeavoring to secure an over-all agreement given [*giving?*] us the maximum facility in our strategic material import programs, we are asking for the right to enter into public work programs when necessary for the stimulation of production development and transportation of these materials. We are referring to items undertaken through the expenditure of development funds wherever established. The question has been raised by the Colombian Government as to the disposition of such public works after the emergency. Do you approve as a matter of policy a statement to the effect that although each project will be considered separately generally improvements of a permanent character would become the property of the Colombian Government whereas any equipment or facilities not fixtures would remain the property of the United States governmental agency and may or may not be made available at cost to the Colombian Government.

Please cable reply. [La Spina.]

LANE

811.20 Defense (M) Colombia/555 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, February 25, 1943—5 p. m.

[Received 9:37 p. m.]

348. Reference Embassy's despatch 1557, of February 3,⁶¹ and other correspondence regarding agreement on rubber program.

⁶⁰ See bracketed note on the agreement between the United States and Peru for an air service adjunct to the wild rubber development project, p. 712.

⁶¹ Not printed; for enclosed note, see p. 26.

The Embassy forwarded by courier pouch which should arrive in Washington Monday, March 1, the text of a proposed note from Acting Minister for Foreign Affairs specifying facilities analogous to those recently conceded for Rubber Reserve program which the Colombian Government is disposed to concede in connection with the Board of Economic Warfare's program for the procurement and exportation to the United States of strategic materials. These proposals have been worked out at the Ambassador's request in accordance with the desires of the special representative of the Board of Economic Warfare in Bogotá, who forwarded a separate copy of the proposed note to the Board of Economic Warfare in the above-mentioned pouch.

Subsequently the Acting Minister has explained that in view of the expected assuming of functions by a new Minister of Foreign Relations⁶² probably next week, a delay may naturally result in the final protocolization of this note, and that therefore considerable time might be gained if this can be accomplished this week. He added that the President had authorized an immediate exchange of notes, having examined and approved the above text as the proposed Colombian note in the exchange.

For this reason the text is cabled herewith in order to make possible an immediate examination thereof by the Department and the Board of Economic Warfare.

In view of the time factor mentioned above it would be appreciated if the Department would telegraph to the Embassy as promptly as possible its views regarding the proposed text and instructions regarding action to be taken.

The text as translated by the representative of the Board of Economic Warfare is as follows:⁶³

LANE

811.20 Defense (M) Colombia/554: Telegram

The Acting Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, March 10, 1943—7 p. m.

292. Your 326, February 20 and 348, February 25. Both the BEW and the Department feel that the draft text of the proposed note is generally acceptable. In fact, it seems necessary to suggest clarification and amendment of only three paragraphs—3, 5, and 10.

It is suggested that numbered paragraph 3 be amended to make it

⁶² The resignation of Francisco José Chaux was announced on February 26. Alberto González Fernández again became Acting Minister for Foreign Affairs.

⁶³ See telegram No. 327, March 16, 9 p. m., to the Ambassador in Colombia and footnote 65, p. 33.

clear that pending any agreement regarding minimum price, we should have the right to negotiate for commodities at the market, or possibly at the market subject to adjustment retroactively when the minimum price is fixed. The proposal is to avoid delays in procurement while price negotiations are in progress.

As regards numbered paragraph 5, our general attitude is that permanent improvements may properly go to the Colombian Government at the end of the war emergency or of our procurement program on such terms and conditions as may be present or hereafter agreed upon with respect to each program provided it is clear that in the interim we will have unrestricted control and use to the extent necessary for our procurement program. As to equipment and non-permanent improvements, it is felt that we should retain ownership without restriction or tax with the understanding that it may or may not be made available to the Colombian Government at cost or on some other basis. It is suggested that numbered paragraph 5 be clarified along this line and provision regarding re-export inserted.

It is suggested that numbered paragraph 10 be dropped since the feeling here is that it is impolitic to request the exemption provided in the first sentence and in its absence there is no need for the second.⁶⁴

It is assumed that U.S. Government procurement agencies are not liable for the payment of corporate income taxes nor for the filing of income tax returns.

Subject to the insertion of the changes suggested above and to our assumption that U.S. procurement agencies are not subject to income tax, the text is approved and you may effect the exchange of notes.

WELLES

811.20 Defense (M) Colombia/582 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, March 13, 1943—1 p. m.

[Received 6:57 p. m.]

452. Department's telegram 292, March 10, 7 p. m. The Department's suggestion for amendments to draft text of the proposed note have been discussed with the Acting Minister of Foreign Affairs. With regard to numbered paragraphs 3 and 5, he indicated that no difficulty will be encountered in harmonizing the text with the suggest[ed] amendments and clarifications. On the other hand he strongly expressed hope that the Department would still see its way clear to approving the retention of paragraph 10, either in its present form or possibly amended, explaining that from the United States

⁶⁴ This provision exempted the United States Government and its agents from certain taxes.

standpoint, he considered it highly desirable in order to avoid double taxation to establish specifically on behalf of non-Colombian employees the exemption from taxes which the paragraph would provide. While such exemption might be taken for granted by the national authorities, he said, complications might easily arise from the action of regional tax collectors unless the point were made clear in the note.

From the Colombian standpoint he considered it to be similarly desirable to include the second sentence of paragraph 10 to insure against the possibility of future misunderstandings on this point.

In these negotiations the Acting Minister has shown a most co-operative spirit and a desire to help in getting the strategic materials program under way. Therefore unless the Department considers the objections to paragraph 10 too strong to be waived, I should appreciate receiving early instructions to proceed with the drafting of the note with the inclusion of paragraph 10.

LANE

811.20 Defense (M) Colombia/582 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, March 16, 1943—9 p. m.

327. Embassy's telegram 452, March 13, 7 [1] p. m. In view of the desire of the Acting Minister of Foreign Affairs, the Department withdraws its objection to the inclusion of numbered paragraph 10 in the draft text of the proposed note.

Accordingly, you may proceed with the drafting of the note with the inclusion of paragraph 10. When you are satisfied that the revised draft embodies the amendment and clarification of numbered paragraphs 3 and 5, as suggested in Department's telegram 292 of March 10, you may proceed with the exchange of notes.⁶⁵

HULL

811.20 Defense (M) Colombia/612 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGORÁ, March 22, 1943—4 p. m.

[Received 8:18 p. m.]

510. Department's telegram 357, March 20, 7 p. m.⁶⁶ Complete preliminary agreement has been reached with the Minister of War ⁶⁷ on the air rubber agreement based on terms conforming with the original contract submitted by Defense Supplies Corporation. To

⁶⁵ The notes were signed and exchanged on March 29, 1943. For texts, see Executive Agreement Series No. 442, or 58 Stat. (pt. 2) 1546.

⁶⁶ Not printed.

⁶⁷ Presumably Ramón Santo Domingo, who succeeded Alejandro Galvis Galvis on March 16, 1943.

simplify procedure Colombian authorities have considered it advisable to put this agreement into effect as one of the individual steps to be taken in the implementation of the more general agreement on strategic materials concerning which the exchange of notes referred to in the Embassy's telegram 495, March 19, 3 p. m.⁶⁸ and previous correspondence is pending. It is expected that the air rubber agreement will be made effective after such exchange of notes.

LANE

811.20 Defense (M) Colombia/651 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, April 10, 1943—10 p. m.

[Received April 11—2:01 a. m.]

649. Department's telegram 375, March 24, 4 p. m.; and 443, April 7.⁶⁹ In today's courier pouch, completed draft of proposed air rubber agreement just received, is being forwarded by Mayer⁷⁰ to Rubber Development Corporation for attention Bicknell. Mayer and La Spina occur [*concur?*] in recognition of cooperation of Colombian officials for expediting conclusion of this agreement, and as it conforms in major respects with draft memorandum of agreement which was transmitted with Department's instruction No. 763 of November 10, 1942,⁶⁸ that it should be signed here as promptly as possible after text arrives and has been examined in Washington. Contrary to Department's apparent understanding no exchange of diplomatic notes on the air rubber agreement has been effected. As this agreement is one case of implementation of the over-all strategic materials agreement already covered by and [*an*] exchange of notes no additional diplomatic exchange will be necessary. Signatures of Mayer and the Ministry of War will suffice. Since it is impossible for Embassy to make copies of agreement in time for this pouch it is hoped that copy sent to Rubber Development Corporation will meet Department's needs.

LANE

821.796/226 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, August 4, 1943—1 p. m.

[Received 4:24 p. m.]

1336. Department's 969, August 3, 6 p. m.⁶⁸ I have discussed with Mayer suggested changes in air rubber agreement as contained in

⁶⁸ Not printed.

⁶⁹ Neither printed.

⁷⁰ Jules de Wael Mayer, Rubber Development Corporation representative.

memorandum of July 16, 1943⁷¹ from Siaca to Studebaker (transmitted in letter to Mayer from Rubber Development Corporation dated July 24, 1943⁷²). Pending detailed discussion with Urdaneta we are withholding our final comments but I wish now to recommend against the substitution role of chapter I, subdivision (a). According to this suggested change Rubber Development is granted the right to construct airports, et cetera, instead of being obligated to construct them. In Urdaneta's opinion which he again repeated to me on August 2, subdivision (a) of chapter I does not legally obligate Rubber Development to construct airports because of the qualifying clause "in such places as the Rubber Development believes convenient" (the airports constructed by Rubber Development at Calmar and Miraflores were constructed because Rubber Development considered these locations "convenient").

I am apprehensive lest the substitution in chapter I subdivision (a) will result in the Colombian Government's feeling that we do not propose to proceed with the terms of the agreement as already agreed upon. As I explained to the Department and to Mr. Stokely W. Morgan of Defense Supplies Corporation during my recent visit to Washington, I feel it most important in connection with our over-all relations with the Colombian Government to carry out in so far as is possible the understanding which has already been tacitly arrived at between Defense Supplies Corporation and the Colombian Minister of War.

Please explain term "Allen Rubber Development" as contained in suggested change in subdivision (b). Also confirm number of article under which this subdivision b should be placed.

LANE

821.796/226 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, August 11, 1943—11 p. m.

994. Embassy's 1336, August 4. There is no disposition here to insist on any particular phrasing, but both the Department and Rubber Development wish to make sure that the Colombian Government's understanding of Rubber Development's obligations under the agreement is the same as Rubber Development's. Department thinks it would be unwise to sign any agreement which might be interpreted differently by the two Governments. No one in the Department or in Rubber Development or Defense Supplies appears to know the extent of the understanding which you referred to as having been tacitly

⁷¹ Not printed.

⁷² Letter of July 24 not found in Department files.

arrived at between Defense Supplies Corporation and the Colombian Minister of War. Please advise.

Term "Allen Rubber Development" was inserted at wrong place in transmission of telegram; message was intended to be for Mayer from Allen,⁷⁶ Rubber Development. Article 8, subdivision (b) was the provision with respect to which change was suggested.

HULL

821.796/229 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, August 13, 1943—noon.

[Received 3:15 p. m.]

1392. Department's 994, August 11, 11 p. m. La Spina and Mayer have consulted Urdaneta who strongly advises against changes suggested in letter of July 24 from Rubber Development Corporation to Mayer (see my 1336, August 4, 1 p. m.). La Spina and Mayer agree with Urdaneta that the changes suggested do not essentially affect the sense of the proposed decree and if insisted upon might seriously prejudice the issuance of decree. At present Colombian Government is granting Rubber Development privileges proposed in agreement in not charging landing tax for planes chartered by Rubber Development landing on Government-owned airfields. These privileges might be endangered by proposing changes or delaying issuance of decree.

As original proposal for contract emanated from Defense Supplies Corporation and as this was accepted by Colombian Government with certain exceptions, which were subsequently waived, we have consistently considered that Colombian Government is in agreement with our views in principle. As evidence of understanding we refer to the Embassy's message to Bicknell (see Embassy's telegram No. 1312, July 30, 10 p. m. [*a m*])⁷⁷ stating that Ministry of War is about ready to sign the resolution in bringing the airport agreement in force, which was answered by Allen's message to Mayer (see Department's telegram No. 969, August 3, 6 p. m.⁷⁷) Please also see Embassy's telegrams 142, February [*January*] 20, 10 p. m., No. 284, February 13, 11 a. m., and 587, April 2, 11 p. m., and Department's telegram 71, January 18, 8 p. m., 175, February 11, 5 [7] p. m., and 580, May 4.⁷⁸

Mayer airmailing complete text of proposed resolution.

LANE

⁷⁶ Presumably Douglas Allen, President of the Rubber Development Corporation.

⁷⁷ Not printed.

⁷⁸ Embassy's telegrams Nos. 284 and 587 and Department's telegrams 71 and 580 not printed.

821.796/229 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, August 18, 1943—10 p. m.

1030. Embassy's 1392, August 13. It is understood from your telegram that there are no tacit understandings on the part of the Colombian Government which would obligate Rubber Development to build any particular airports at any particular places or to supply planes and that the agreement is merely permissive in nature, authorizing Rubber Development to take such action under the aviation agreement as in its discretion seems necessary for the rubber program. If you are satisfied that there can be no misunderstanding in this connection, the Department and Rubber Development are agreeable to the execution of the agreement without further changes.⁷⁹

HULL

PURCHASE BY THE UNITED STATES OF TWO ITALIAN TANKERS
REQUISITIONED BY COLOMBIA⁸⁰

800.85/830 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, March 15, 1943—11 a. m.

[Received 3:29 p. m.]

459. Department's telegram number 114 of January 28, 2 p. m., and my telegram 321 of February 19, 4 p. m.,⁸¹ regarding former Italian tankers. The Minister of Finance⁸² and the Coffee Federation⁸³ continue to inquire regarding the status of this matter.

The bill of sale enclosed with my despatch number 1330 of December 30, 1942⁸⁴ incorporated the changes desired by the War Shipping Administration as stated in the Department's telegram 1156 of November 2, 6 [4] p. m.⁸⁴ Since we have had possession of the vessels for over 7 months and since the Colombian Government and the Federation have cooperated to the fullest possible extent, progressing failure to settle this case is becoming increasingly embarrassing. In view of the circumstances surrounding this transaction, and especially in view of this definite contribution of Colombia, a non-belligerent, to our war effort, I am strongly of the opinion that we are in no position to take a legalistic stand. I therefore request telegraphic authority to sign the bill of sale enclosed with my above-cited despatch.

LANE

⁷⁹ The agreement was signed December 27, 1943.

⁸⁰ Continued from *Foreign Relations*, 1942, vol. VI, pp. 193-204.

⁸¹ Neither printed.

⁸² Alfonso Araújo.

⁸³ Federación Nacional de Cafeteros.

⁸⁴ Not printed.

800.85/815 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, March 19, 1943—8 p. m.

351. Your 459, March 15, 11 a. m. Department's instruction number 1107 of March 15⁹⁰ forwarded a letter from War Shipping Administration⁹⁰ suggesting additional changes in the bill of sale. It is not possible therefore to authorize you to sign the bill of sale as submitted with your despatch 1330.⁹⁰

While the delay in this case is regretted, War Shipping Administration feels that the suggested changes are necessary to protect all concerned, particularly in view of the fact that the Colombian Government did not take title to the vessels. In all other cases where the United States had purchased vessels from the other American Republics the Governments of those countries had taken full title, thus making the transactions much simpler. Another cause of delay, and one which cannot be avoided, is the necessity for matters of this sort to be approved by a number of people.

HULL

800.85/835 : Airgram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, April 2, 1943—7:10 p. m.

A-600. The considerations expressed in your telegram no. 542 of March 27⁹⁰ are appreciated by the Department, which together with the War Shipping Administration wishes to conclude this matter at the earliest possible moment.

The War Shipping Administration has, following receipt of the above-mentioned telegram, sympathetically reviewed again the terms of the Bill of Sale submitted with your despatch no. 1330 of December 30.⁹⁰ It believes, however, that although agreement in principle exists as the result of the exchanges between the Embassy and the Department, a few revisions of the Colombian text of the Bill of Sale are imperative fully to cover the conditions agreed upon and in order for the War Shipping Administration adequately to protect its part in the transaction.

The desired alterations in the text will be telegraphed to you within the next few days with the reasons therefor clearly set forth. Because it is not expected that they will be complicated or extensive, it is hoped that they will be readily acceptable to the Colombian officials concerned, in which case authority can then be given you to sign the Bill of Sale.

HULL

⁹⁰ Not printed.

800.85/837 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, April 7, 1943—4 p. m.

[Received 6:52 p. m.]

616. Department's A-600, April 2, regarding Italian tankers. In drafting the proposed alterations, I request that the following points be considered with reference to the objections raised in the War Shipping Administration's letter of February 25 enclosed with the Department's instruction No. 1107 of March 15:⁹¹

1. Paragraph third. Full information regarding the privileged debts referred to in this paragraph was sent to the Department with this Embassy's despatch No. 1529 of January 30.⁹¹ For us now to demand from the Federation photostatic copies of the documents disputed [*disputing*] the nature and amount of these debts would in my opinion be resented, and I am strongly of the opinion that no such request should be made since it could give the impression that we doubted the Federation's good faith.

2. Paragraph fourth. I trust that it will be possible to accept the provision in the draft requiring payment to the Federation within 5 days following the signature of the contract. The Department will recall that the original draft required that payment be made in New York on the date the contract was signed and that no objection was then raised by the administration.

Please telegraph the English text of the desired alterations.

LANE

800.85/837

The Secretary of State to the Ambassador in Colombia (Lane)

No. 1173

WASHINGTON, April 14, 1943.

SIR: Reference is made to the Department's airgram no. A-600, April 2, 1943, and the Embassy's telegram no. 616, April 7, 1943 concerning alterations in the text of the bill of sale covering the purchase of the former Italian vessels *Anteo* and *Rapallo*.

Although it was originally believed it would be possible to telegraph you regarding the revisions considered necessary, it has been decided it would be more helpful to you to receive the letter from the War Shipping Administration⁹² with the suggested draft indicating the desired changes.

The changes made in the first and second paragraphs are, of course, obvious and require no comment.

In paragraph 3 you will note that the bill of sale has been changed in such manner that both parties rather than the War Shipping Ad-

⁹¹ Not printed.⁹² Dated April 6, not printed.

ministration alone declare that claims, et cetera up to the amount of \$1,500,000 would be for the account of the Federación or of the Government of Colombia. This is considered logical and it is presumed should meet with no objection. You will note also that a new provision has been added providing definitely for the holding of the purchase price for the payment of such claims and providing that claims, other than those previously listed in the bill of sale shall not be admitted or paid except upon the basis of the court judgment or in such other manner as may be satisfactory to the two governments. It appears to the Department that the reasons for these changes and additions given in the War Shipping Administration letter are sound and reasonable and that some such provisions are necessary to adequately protect the interests of this Government.

It will not be necessary to raise specifically the question of furnishing photostatic copies of documents. However it should be pointed out to the appropriate Colombian officials that it is considered essential that the War Shipping Administration be kept fully informed as to all debts paid and all claims filed in connection with the two vessels in view of its liability for all claims over the purchase price.

In regard to the change in paragraph 4, this has been suggested purely because the administrative handling of such payments practically makes impossible the completion of the action within five days. The War Shipping Administration is reluctant to commit itself to a step which could be embarrassing through non-fulfillment because of unavoidable procedure with Government payments.

The change made in paragraph 6 is highly desirable since the statement that the ships were in "the best of condition", et cetera could not have been factually accurate. If not revised it leaves an opening for possible increased liability later which, it is felt sure, the Colombian Government as well as this Government would wish to avoid.

While no change has been made in paragraph 7, it is desired to call your attention to the comment of the War Shipping Administration and ask that you bring it to the attention of the appropriate Colombian authorities.

With regard to paragraph 8, which has been added by the War Shipping Administration, the Department understands this may not be possible because it would appear that the Federación cannot obligate the Government of Colombia. Therefore, if this article is not to be included an exchange of notes with the Colombian Government along the same lines might be the solution. While the present contract is between the War Shipping Administration and the Federación, the Department is of the opinion that the Colombian Government itself has some responsibilities and obligations since the negotiations were carried out in the manner directed by it.

It will be noted that the War Shipping Administration has in its letter of April 6 in the second paragraph on page 3 indicated its readiness to defer to the Department's opinion if political considerations warrant. The Department would prefer, however, to await the results of your approach to the appropriate Colombian officials before assuming responsibility for the waiving of the safeguards in the bill of sale which the War Shipping Administration considers essential. Please inform the Department by telegram of the decision concerning the proposed changes.

Very truly yours,

For the Secretary of State:
BRECKINRIDGE LONG

800.85/867 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, June 2, 1943—9 p. m.

703. Your A-402, May 18, 1943, and 873, May 19.⁹³ Please advise the Minister of Hacienda and other appropriate officials of the information given below. If these changes now make conditions and terms of bill of sale satisfactory, you are requested to present to the Foreign Office a note containing the following text:

"My Government agrees to the elimination in clause 3 of the contract of the phrase 'que el precio de compra (U. S. \$1,500,000) debe ser retenido por el vendedor o el Gobierno de Colombia para el pago de dichos reclamos' ⁹⁴ as my Government is confident that the Federación Nacional de Cafeteros and the Colombian Government will see that the obligations under the contract for the payment of claims from the purchase proceeds will be observed.

"The change suggested concerning the manner of payment of the purchase price is agreed to.

"My Government considers it necessary to eliminate from the contract the proposed provision concerning arbitration, since it cannot agree that the arbitration should necessarily be under Colombian law. If at any time it should be found necessary to resort to arbitration, an arrangement therefor could then be agreed upon.

"Upon the receipt of a note from the Foreign Office expressing approval of the contract with the changes suggested above, I (or in my absence, the Chargé d'Affaires ad interim) am authorized to sign it."

Please send by air mail two certified copies of contract when signed.

HULL

⁹³ Neither printed.

⁹⁴ "That the purchase price (U. S. \$1,500,000) is to be retained by the seller or the Government of Colombia for the payment of said claims."

800.85/854 : Telegram

The Chargé in Colombia (Warren) to the Secretary of State

BOGOTÁ, June 8, 1943—6 p. m.

[Received 9 : 35 p. m.]

994. Reference Department's 703, June 2, 9 p. m. I have seen Mejia⁹⁵ of Federación Nacional de Cafeteros and changes suggested by Department in its 703 are agreeable. He asked me for a clean copy of the contract which he expects to clear with Minister of Hacienda without difficulty. With latter's approval, Mejia says, they will be ready to sign.

In view of the foregoing and since the Foreign Office has not been a party to the negotiations does the Department consider the suggested note to the Foreign Office imperative? Would it be sufficient to transmit a copy of the text of the contract to the Minister for Foreign Affairs after signature? A telegraphic reply would be appreciated.

WARREN

800.85/854 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, June 11, 1943—8 p. m.

744. Your 994, June 8, 6 p. m. In asking you to address a note to the Foreign Office the object was to obtain from the Colombian Government some statement in writing which would indicate the approval of the contract by that Government.

The Department believes it essential to obtain such a statement in order to safeguard the interests of this Government. It is the Department's view that it is immaterial whether this statement is obtained from the Foreign Office or the Minister of Hacienda. In your discretion you may address a communication to the latter embodying the contents of Department's 703 with appropriate changes in last paragraph and sign the contract after receipt from him of a communication giving the desired approval.

HULL

800.85/858

Memorandum by Mr. R. W. Flournoy of the Office of the Legal Adviser to the Legal Adviser (Hackworth)

PURCHASE FROM THE COLOMBIAN GOVERNMENT OF THE FOREIGN
ITALIAN SHIPS "ANTEO" AND "RAPALLO"

[WASHINGTON,] July 10, 1943.

MR. HACKWORTH: The attached draft telegram⁹⁶ to the Embassy

⁹⁵ Manuel Mejia, Manager of the Federación.

⁹⁶ Missing from Department files.

at Bogotá was prepared by Mr. Falck of IN⁹⁷ in collaboration with Mr. Keith of RA.⁹⁸ I went over the original draft with them this morning and suggested some changes, which have been embodied in this draft. I am informed that Minister Lane has read and approved the telegram.

I had no part in the earlier correspondence concerning the acquisition of the vessels by this Government. As you may know, these Italian tankers were seized by Colombian authorities when they were in the Port of Bogotá and turned over to the Colombian corporation known as the Federación Nacional de Cafeteros, which appears to be controlled by, and in effect an agency of, the Colombian Government.

As you will see, the attached telegram relates to the completion of the rather long drawn out transactions concerning the purchase of these vessels from the Colombian Government by the Government of the United States, through the payment of the purchase price already agreed upon, \$1,500,000.00.⁹⁹

It appears that the Colombian Foreign Office has been seeking to take the position that these vessels have never belonged to the Colombian Government. However, as I told Mr. Falck and Mr. Keith, it appears to me that it is necessary for us to take the position that the vessels belonged to the Colombian Government (although they were operated by the Federación) prior to their sale to the United States. Obviously the Federación had no right whatsoever to seize the vessels in the first instance, except as an agency of the Colombian Government. The latter had a right to take the vessels when they were in the Colombian port, although it will be necessary for the Colombian Government to give due compensation to the Italian Government. If the Colombian Government had never acquired title to the vessels it would not have been able to pass title to this Government.

As to the question of interest on the payment to be made, I agree with Messrs. Falck and Keith that (1) there is no obligation on the part of this Government to pay interest to the Colombian Government, and (2) the question whether any interest will ultimately have to be paid to the Italian Government can be settled later on. Needless to say, this Government cannot properly discuss the subject at the present time with the Italian Government directly or through the Colombian Government.

[A postscript concerning terminology follows here.]

⁹⁷ L. James Falck, Division of International Communications.

⁹⁸ Gerald Keith, Assistant Chief, Division of the American Republics.

⁹⁹ The contract was signed on July 30, 1943, and a check was forwarded by the War Shipping Administration late in September.

EFFORTS OF THE UNITED STATES AND COLOMBIAN GOVERNMENTS
TO CONTROL FINANCIAL TRANSACTIONS INVOLVING THE AXIS

740.00112A European War 1939/23235

The Ambassador in Colombia (Lane) to the Secretary of State

No. 1301

BOGOTÁ, December 22, 1942.

[Received January 8, 1943.]

SIR: With reference to my strictly confidential despatch no. 1294 of December 16, 1942,¹ I have the honor to report that on December 22 I had an extended conversation with the Minister for Foreign Affairs, Dr. Gabriel Turbay, regarding the administration of the Proclaimed List and the Interventor System, the substance of which I am reporting hereunder.

I informed the Minister that the Department has expressed dissatisfaction with the manner in which the Interventor System is working and furthermore has indicated its displeasure with existing freezing controls. The Minister stated that he was very glad that I had raised these points as he personally wished to speak to me regarding complaints again received by President López² regarding the officious and tactless attitude assumed by the Consulate in Barranquilla on Proclaimed List cases. Dr. Turbay said that he would obtain the details from the President and would transmit them to me in due course.

As to the Interventor System the Minister said that it had been agreed last summer in Washington, between Dr. Miguel López³ and Mr. Laurence Duggan,⁴ that once the Colombian Government had taken over the administration of a firm which had Axis interests or dealings, such firm would immediately be removed from the Proclaimed List in view of the responsibility thereupon falling on the Colombian Government. I replied that I readily understood the logic of this arrangement but that such a procedure should be conditional on the Colombian Government effectively blocking the funds of the intervened firm and controlling completely its activities. I mentioned then the specific cases of Tedesco, S. A.; Ferrari, Riccardi and Ambrosi; La Química-Bayer-Westkott, which had without hindrance imported 260,000 pesos worth of Argentine drugs; and the Almacenes Helda, which regardless of its having been placed on the Proclaimed List had been able to continue its business activities without hindrance.

¹ Not printed.

² Alfonso López.

³ President of the Caja de Crédito Agrario, Industrial y Minero and brother of the President.

⁴ Adviser on Political Relations in the Department of State.

I also stated that according to reports which had recently come to my attention, Señor Gaviria of the Foreign Office had not effectively carried on the consultative process with this Embassy which had been established with his predecessor, and that therefore since July 1942 no Proclaimed List cases dealing with Colombian nationals had been affirmatively passed by him.

Dr. Turbay replied that the question of the Proclaimed List divided itself into two parts: (1) Cases involving foreign firms or nationals, regarding which the Colombian Government raised no objection whatever; and (2) cases involving Colombian firms or nationals. He said that the Colombian Government cannot, for political reasons which should be evident to us, agree to the inclusion of Colombian nationals on our Proclaimed List. To approve such inclusion would result in attacks on the Government in Congress and would subject the Government to great embarrassment. The Government's approval would be interpreted by some as a derogation of sovereignty and as a relinquishment of the Colombian Government's duty to protect its own nationals. The Minister said, however, that there is a great deal of difference in the meaning between the terms "approval" and "acquiescence". His proposal would be that a committee be formed comprised of representatives of the Ministries of Foreign Affairs, Hacienda and National Economy and of this Embassy, which would meet from time to time to discuss cases involving the inclusion of Colombian firms or individuals on the Proclaimed List. In the event that the Colombian representative should indicate that the information on which we were basing inclusion was not based on facts, a further investigation could be made by us to justify our position, as presumably we would not wish to include a name on the basis of misinformation. In the event that there should be no question as to the soundness of our argument regarding the inclusion of a given firm, the Colombian representatives, while not giving their approval, might indicate their acquiescence or at least the absence of any objection on their part. Dr. Turbay said that in his opinion the attitude of Dr. Gaviria, of which we had complained, is probably due to the reluctance of any Colombian official to give approval to the inclusion of a Colombian national on our Proclaimed List.

As to the complaints which I transmitted regarding the administration of the Interventor System, Dr. Turbay requested me to furnish a specific memorandum on each case which in our opinion deserved censure. He said that he would look into each case personally, with a view to taking remedial action. I promised Dr. Turbay that I would have prepared without delay memoranda covering the most outstanding cases in which intervened firms had been treated with laxity by the Colombian Government.

It was agreed between the Minister and me that another meeting would be shortly held between us, possibly with the attendance also of the Minister of Hacienda ⁵ and Mr. Livengood, Counselor of Embassy for Economic Affairs, so that the problems facing us could be worked out in a spirit of cooperation and frankness.

I should appreciate it if the Department would transmit to me its views regarding the formation of a committee to discuss specific cases involving the proposed inclusion of Colombian firms or nationals on the Proclaimed List. I believe that such a procedure would serve to satisfy any Colombian misgivings regarding alleged interference or arbitrary action on our part and would, because of the representation of various Ministries on the committee, be more effective than the present system where one subordinate of the Foreign Office can through procrastination hold up a definite decision.

The Department's reply by telegraph will be deeply appreciated.

Respectfully yours,

ARTHUR BLISS LANE

740.00112A European War, 1939/23188 : Airgram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, January 1, 1943—5 p. m.

[Received January 7—2 : 15 p. m.]

A-10. Reference my despatch no. 1301, December 22, 1942.

On December 29 I had a general discussion with President López and Minister of Hacienda Araújo regarding policy of the Colombian Government with respect to intervened firms. On December 30 I had, at the request of the President, an extended interview with Ramón Santo Domingo, newly appointed Minister of Communications. As the latter is from Barranquilla, from which point numerous complaints have arisen regarding our administration of the Proclaimed List, President López and I agreed that it would be well to have a frank discussion with him. Following is summary of conversations of December 29 and 30 :

At request of Araújo I intend personally to furnish him on January 4 with details regarding firms intervened by Colombian Government, with respect to which Department has expressed concern. Araújo promised to go over all details with care and to take drastic action regarding firms which are being administered with laxity. He pointed out, however, that great shortage of essential supplies in Colombia, whose economy is non-industrial, and difficulty if not impossibility of obtaining shipping space for needed supplies from United States makes it imperative for Colombian Government to

⁵ Alfonso Araújo.

permit firms such as Bayer-Westkott to import drugs and medicines from Argentina. Araújo said, however, that Bayer's funds are completely frozen and that he would give me strict accounting of all funds received. . . .

I informed Araújo I had already spoken to Foreign Minister Turbay regarding advisability of our having general talk regarding status of firms intervened by Colombian Government. Araújo suggested that as Turbay is out of town over holidays, Araújo and I might talk alone on January 4 and then later have further talk with Turbay. Araújo evidenced great disposition to investigate cases and take satisfactory action.

President López having transmitted to me on December 24 complaint from Governor of Department of Atlántico regarding attitude of Consul at Barranquilla ⁶ on Proclaimed List cases (President López was not specific as to the nature of the complaint except that one case involved Caputo and Company), I requested Consul Robinson to submit to me comprehensive report. This report, which I showed the President on December 29, indicates that Consulate had correctly carried out instructions from Department in advising American firms in its district not to sell to Proclaimed List firms. Santo Domingo, on December 30, informed me that in his opinion no criticism due Consulate on Proclaimed List matters. The principal complaint should be placed on Barranquilla persons who, in order to ingratiate themselves with Consulate, furnish information regarding their personal enemies or business competitors which the Consulate must necessarily receive. Santo Domingo admitted, however, that in his opinion the Consulate did not sufficiently investigate information received.

After conversations with Araújo and Turbay I shall report to Department further of developments.

LANE

740.00112A European War, 1939/23885 : Airgram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, January 15, 1943—10 : 30 a. m.

[Received January 20—5 p. m.]

A-33. Reference my airgrams no. 10, January 1, 5 p. m., and no. 12, January 2, 5 p. m.⁷ Meetings were held on January 8 and 12 with Minister of Hacienda regarding Proclaimed List matters and especially with regard to intervened firms.

Dr. Araújo, who showed a very evident desire to cooperate with us, expressed agreement with our point of view in removing inter-

⁶ Thomas H. Robinson.

⁷ Latter not printed.

vened firms from the Proclaimed List always on condition that undesirable members of the firm should be eliminated and transactions with undesirable firms stopped. Dr. Araújo expressed agreement with my point of view that in addition to the desirability of the Colombian Government's taking steps required as a measure of continental solidarity in accordance with Colombia's stipulated obligations contracted in Havana, Rio and Washington,⁸ the present unsatisfactory situation of keeping on the Proclaimed List firms which are intervened and administered by the Colombian Government is possible cause for friction between the two Governments, implying a reflection on the effectiveness of the Colombian Government's administration of such firms.

Specific cases were discussed with the Minister and his assistants, and it was agreed that Mr. Derby⁹ of the Embassy would take up with Dr. Bernal of the Ministry of Hacienda¹⁰ the requirements which the Department has imposed for the elimination of firms from the Proclaimed List. Should there be any disagreement between Derby and Bernal as to procedure, the Minister expressed willingness to discuss the general situation or any specific case with me personally.

The question of the extent of the present Colombian decrees involving control of enemy nationals was also discussed with the Minister and his assistants. The deficiencies in the existing decrees were pointed out in detail to the Minister, particularly with reference to the commitments made by the Colombian representatives at the Rio and Washington conferences. The fact that Law 128 expired on July 20, 1942, and that the President no longer had extraordinary powers to control and regulate the property and activities of enemy nationals, was also discussed. The Minister stated that he was anxious to know definitely what additional measures his Government should take to correct existing deficiencies in the Colombian decrees, and that when this was determined, additional legislation would be requested of Congress for this purpose, if necessary. It was agreed that Derby and Bernal would discuss this phase of the problem in detail and the results of their discussion would be submitted to the Minister for his consideration and action.

I believe that these meetings have accomplished the necessary spadework for a better understanding on the part of the Colombian authorities of our desires, and have also served specifically to clear up

⁸ The Second and Third Meetings of the Foreign Ministers of the American Republics were held at Habana, July 21-30, 1940, and at Rio de Janeiro, January 15-28, 1942, respectively; for correspondence concerning the meetings, see *Foreign Relations*, 1940, vol. v, pp. 180 ff., and *ibid.*, 1942, vol. v, pp. 6 ff. The Inter-American Conference on Systems of Economic and Financial Control was held at Washington, June 30-July 10, 1942; for correspondence, see *ibid.*, pp. 58 ff.

⁹ Robert Julius Derby, Special Assistant to the Ambassador in Colombia.

¹⁰ Pablo Bernal of the Juridical Section of the Ministry of Hacienda.

certain doubtful cases. I am hopeful that Derby's conversations with Bernal will definitely and satisfactorily dispose of cases regarding which Department has expressed dissatisfaction.

LANE

840.51 Frozen Credits/9798

The Ambassador in Colombia (Lane) to the Secretary of State

No. 1768

BOGOTÁ, March 3, 1943.

[Received March 20.]

SIR: I have the honor to refer to the Department's instruction no. 795 of November 19, 1942,¹¹ concerning Colombian economic and financial controls of enemy property and assets, and subsequent reports and despatches from this Embassy regarding this subject.

At the recent extraordinary session of Congress of Colombia which adjourned on February 28, 1943, comprehensive legislation, known as the Economic Defense Plan, was enacted, providing for the control of prices of drugs, foodstuffs, and merchandise ordinarily consumed by the public and authorizing the Government to take the necessary measures to accomplish the purposes of the law. The full text of the Economic Defense Plan will be submitted in a separate report as soon as it is officially published.

Articles 13 to 17, inclusive, of the Economic Defense Plan contain certain provisions and authorizations to the Government with reference to the control of property of foreigners.

For the present, it will be observed that Article 13 authorizes the issuance of bonds in the amount of fifty million pesos, the proceeds of which are to be used for the nationalization of property owned by foreigners which is under the administration of the Colombian Government and for the purpose of purchasing telephone, transportations, electric power, and other public utility companies. This article also grants extraordinary powers to the President until December 31, 1943, to extend and amend existing decrees within the provisions of Article 16 of Law 128 of 1941. The effect of this article is to renew until December 31, 1943, the extraordinary powers granted to the President by Article 16 of Law 128 of 1941, which powers expired on July 20, 1942.

Article 14 provides for the maturity and interest rate of the bonds authorized to be issued by Article 13.

Article 15 provides that income from firms under administration, and cash balances of such firms, must be invested when required by the Government, in the bonds authorized to be issued by this law.

Article 16 provides for amortization of bonds and payment of in-

¹¹ Not printed.

terest thereon from proceeds of enterprises nationalized with the proceeds of this issue.

Article 17 provides for exclusion of nationals of territories occupied by the Axis from Government administration where such nationals are able to furnish satisfactory proof of good conduct and antecedents. This article also provides for opening of bank accounts by Axis nationals and other persons subject to Colombian controls where such bank accounts are absolutely essential and the persons involved furnish satisfactory proof of good behavior and antecedents.

The necessary decrees to carry these provisions into effect have not as yet been issued, but developments will be followed closely and promptly reported to the Department.

Respectfully yours,

For the Ambassador:
CHARLES A. LIVENGOOD
*Counselor of Embassy for
Economic Affairs*

740.00112A European War 1939/25807 : Telegram

The Acting Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, March 12, 1943—4: 10 p. m.

A-537. Reference your airgram A-33, January 15 and despatch no. 1602 of February 9, Department's telegram no. 33 of January 9¹² and previous communications concerning establishment of consultative procedure between the Embassy and the Colombian Government with respect to Proclaimed List matters. Officers of the Department conferred Monday with Dr. Turbay and Dr. Vargas.¹³ It was explained that this government had found that the discussion of questions relating to the Proclaimed List with other governments was made more effective and profitable for both governments when a consultative commission was created by the local government for the purpose of discussing Proclaimed List matters with representatives of the American Embassy; that such a consultative committee in our opinion should be given broad authority to carry on such discussions without the necessity of referring, except with respect to broad questions of policy, to higher governmental authorities; that this government would be willing to agree to submit all proposed additions to the Proclaimed List to such a commission before taking action; that it should be clearly understood that such submission should be made for the purpose only of giving the Colombian Government information of proposed action and affording it the opportunity to furnish such additional informa-

¹² Despatch No. 1602 and telegram No. 33 not printed.

¹³ Alberto Vargas Nariño, Counselor of the Colombian Embassy.

tion as it might wish to have the American authorities take into account in passing upon Proclaimed List questions; that final authority with respect to all action relating to the Proclaimed List must remain with the authorities charged with its maintenance in Washington; that experience has shown, however, that corrective action to obviate addition of particular names is sometimes possible as a result of consultation and that deletion of firms important to local economy is expedited through interchange of information and views. It was suggested that such a commission might be given authority to discuss with representatives of the American Embassy proposals for increasing the effectiveness of Colombian controls.

Dr. Turbay expressed his approval of the establishment of such a consultative commission and said that he would write to the Acting Foreign Secretary¹⁴ recommending immediate action on this matter.

A full instruction follows.¹⁵

WELLES

740.00112A European War 1939/28591

The Ambassador in Colombia (Lane) to the Secretary of State

No. 1899

BOGOTÁ, March 30, 1943.

[Received April 10.]

SIR: With reference to my despatch No. 1894 of March 29, 1943,¹⁶ I have the honor to inform the Department that the Minister of Hacienda and Public Credit, Doctor Alfonso Araújo, informed me on March 29, 1943 that he too had been approached by the Apostolic Nuncio¹⁷ regarding the Banco de Frances e Italiano and especially with respect to the administration of the bank by the Colombian Government,¹⁸ pointing out that the majority of the shares of the bank are owned by Profima,¹⁹ majority of which shares are in turn, owned by the Holy See.

Doctor Araújo informed me that it had been the intention of the Government to set up the new Board of Directors of the bank as of April 1, 1943, but that in view of the interest of the Nuncio and in

¹⁴ During Dr. Turbay's absence Alberto González Fernández was in charge of the Ministry except for a short period when Francisco José Chaux served as the Minister.

¹⁵ No. 1142, March 31, p. 52.

¹⁶ Not printed.

¹⁷ Monseñor Serena.

¹⁸ A Board of Directors, named by the Government, blocked the profits of the Bank and the accounts of Axis nationals, prohibited transactions with those on the Proclaimed List and with Axis firms, but had not dismissed personnel undesirable to the United States.

¹⁹ Referred to by a representative of the Holy See as "Profima S. A. Société Immobilière et de Participations," Lausanne.

view of the information which we have requested the Nuncio to furnish the Embassy in connection with the ownership of the shares of the bank, the Government has decided to postpone for a week or two the setting up of the new Board of Directors. The Minister added that pressure had been brought to bear on the Government by the main office of the bank in Buenos Aires to allow the head office to determine the composition of the new Board. Doctor Araújo said that the Government had definitely refused this request, as obviously such a move would facilitate transactions which are not in the interest of hemispheric solidarity.

I shall keep the Department fully advised of any developments in connection with the situation.

Respectfully yours,

ARTHUR BLISS LANE

740.00112A European War 1939/23233

The Secretary of State to the Ambassador in Colombia (Lane)

No. 1142

WASHINGTON, March 31, 1943.

The Secretary of State refers to the Embassy's despatch no. 872 of October 2, 1942 and the Department's telegram no. 33 of January 9, 1943²⁰ and airgram no. A-537 of March 12, 1943 concerning the establishing of a consultative procedure with respect to Proclaimed List matters.

The Department approves the establishment of consultative procedures with the local governments in connection with the Proclaimed List where it is requested by such governments provided certain principles are agreed upon as the basis of consultation. In this connection there is enclosed for the information of the Embassy a copy of a memorandum dated June 27, 1942²¹ which was accepted by the Venezuelan Government as a basis for a consultative procedure with respect to names on the Proclaimed List for Venezuela.

The Department would be glad to cooperate in the establishment of a consultative procedure with the Colombian Government upon the principles set forth in the enclosure.

It was on this basis that a possible consultative procedure in Colombia was discussed with Mr. Turbay as referred to in A-537 and with Dr. Miguel López during his visit to Washington last year.

Any procedure which would be satisfactory to the Department would not involve the use of a preliminary screening process by an

²⁰ Neither printed.

²¹ Not printed; in this memorandum it was made clear that the United States was to retain the ultimate decision concerning the inclusion of cases and that corrective action must be taken in appropriate cases, irrespective of nationality, and with expedition.

independent Colombian committee with respect to Colombian individuals. It will be noted that point 4 of the memorandum relating to the Venezuelan consultative procedure states that listing or corrective action must extend to any person or firm identified directly or indirectly with pro-Axis interests regardless of nationality. It is believed that it would be highly undesirable to establish any differentiation in the handling of cases on the basis of nationality. While the Department wishes to afford every safeguard against the unjustified listing of Colombian citizens it should be clear to the Colombian Government that the Axis has not hesitated to promote its plans through the instrumentality of firms having the nationality of countries in this hemisphere and that the prosecution of measures of hemisphere defense would be seriously hampered if any distinction on the ground of nationality were allowed to interfere with the implementation of the Proclaimed List program.

In discussing this matter with the Colombian authorities it should be stressed that the final decision with respect to additions and deletions in the Proclaimed List, which relates to controls established by this Government, must rest with the Interdepartmental Committee in Washington. In the deliberations of the Interdepartmental Committee full weight will be given to any expressions of opinion by the Colombian consultative commission and to considerations relating to the Colombian economy. In the event that the Colombian authorities should request representation on that committee, it should be stated that it is not feasible for all of the American republics which have severed relations with the Axis to be represented on the committee and that every opportunity is afforded through the consultative procedure for local governments to express their position concerning particular names.

The Department believes that it is of great importance in establishing a consultative procedure to effect an arrangement whereby proposed additions will be discussed with the consultative commission simultaneously with the transmission of a report to the Department and that it be understood that in the absence of the submission of further information by the consultative commission within a period to be agreed upon such as two or three weeks, the Department will assume that the Colombian Government has no objection and the case will be submitted to the Interdepartmental Committee on the basis of the Embassy's report. In the absence of such an arrangement it has been found that the local government is sometimes prone to delay action on important cases by mere failure to report its position.

The Department believes that it is essential to the successful functioning of a consultative procedure that the consultative commission

which is established by the Colombian Government be given broad authority to carry on discussions with the Embassy without the necessity of referring to higher governmental authorities, except when broad questions of policy are involved. Experience has shown that it is also desirable to establish consultation on a basis of regular and frequent meetings. Through such meetings it is possible for the Colombian Government to make sure that the Embassy has full information concerning firms which are proposed for addition to the list and for the Embassy to discuss fully with the consultative commission action which may be taken by Proclaimed List firms or by the Colombian Government for the purpose of securing the deletion of firms in appropriate cases.

The Department also believes that it would be helpful if such consultative commission were given the power to examine the adequacy of the Colombian economic and financial controls and to make recommendations with respect to needed improvements in such controls as indicated by the Resolutions of the Inter-American Conference on Systems of Economic and Financial Control. By virtue of such an arrangement it may be possible to facilitate the reorganization of Proclaimed List firms and to promote a solution of the unsatisfactory situation now existing with respect to intervened firms.

For the Embassy's confidential information, experience in Mexico has indicated that the continuation of the interventorship of undesirable firms is likely to lead to a serious undermining of the entire Proclaimed List program in the country. The mere appointment of an interventor obviously accomplishes little or nothing toward improving the political complexion and activities of the firms but does offer local firms an excuse for dealing with the Proclaimed List national. Furthermore, unfortunate situations such as are referred to in the Embassy's despatch no. 1301 of December 22, 1942 and despatch no. 107 from the American Consulate at Barranquilla dated December 30, 1942²² are inevitable as a result of the performance of their duties by American foreign service officers in spite of the exercise of utmost tact. The Department is solicitous that foreign service officers shall not be subjected to unanswered criticism by the local government for the performance of their duties in economic warfare measures in behalf of hemisphere defense.

It should be made clear that the consultative commission should be composed only of representatives of the Colombian Government for the purpose of consulting with the American and British Embassies and these Embassies should not, therefore, have members on the commission as suggested in the Embassy's A-12 of January 2, 1943.²³

²² Latter not printed.

²³ Not printed.

103.9165/29 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, May 12, 1943—10 p. m.

611. Your 745, April 28, 1943, 10:00 p. m.²⁴ Department would welcome a decision by the Colombian authorities to nationalize enemy companies and would extend all assistance and cooperation possible under present conditions. However, at the present time Department is unable to express a definite view on the basis of mere indications that tie-ups with corresponding American companies are desired. In the absence of information concerning the type of agreement proposed, the assistance needed, the type of business done and products sold by the local firm, it is difficult to present a proposal to specific American firms. Such firms in general wish to know some of the relevant business facts before committing themselves. Moreover, although the Department will not disapprove any specific proposal merely because it involves a tie-up with corresponding American firms, it would wish to examine the terms of such proposal before passing on it. However, within the limits of our stated trade and replacement policies, we will do everything possible to facilitate technical and financial assistance to nationalized firms.

Please submit a complete description of the companies in Colombia which would probably be involved in the replacement program, the type of assistance they wish from the United States and, if possible, the terms and conditions on which this assistance is desired. Please indicate to the Colombians that the Department wishes to make the maximum contribution to Colombia's program and that any delays that may be involved in collecting and studying required information would appear to be warranted and, it is hoped, will not prejudice the nationalization program.

HULL

840.51 Frozen Credits/10472 : Airgram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 15, 1943—1 p. m.

[Received May 22—3 p. m.]

A-396. Reference Department's Confidential Instruction No. 1240 of May 5, 1943,²⁴ regarding Vatican interest in the Banco Francés e Italiano.

²⁴ Not printed.

For the Department's information, I have discussed the information contained in the instruction under reference with the Minister of Hacienda, who appeared to appreciate fully the Department's policy in not intending to consent to the deletion of the Banco Francés e Italiano from the Proclaimed List on the basis of the financial interest which the Vatican has acquired in that bank. He commented, in fact, that the acquirement of such interest appeared to him to be a cloaking operation.

LANE

740.00112A European War 1939/31416

The Ambassador in Colombia (Lane) to the Secretary of State

No. 2159

BOGOTÁ, May 21, 1943.

[Received May 28.]

SIR: I have the honor to advise the Department that recently Señor Gonzalo Córdoba, manager of the Bogotá branch of the Banco Comercial Antioqueño asked the Embassy's advice as to what action he should take with reference to opening of irrevocable letters of credit for firms on the Proclaimed List but under the fiduciary administration of the Colombian Government.

It will be recalled that at the time of the reorganization of the Banco Alemán Antioqueño and its change of name to the Banco Comercial Antioqueño, one of the conditions to its deletion from the Proclaimed List was that the reorganized Banco Comercial Antioqueño would not engage in banking transactions with or for Proclaimed List nationals. Close observation by the Embassy indicates that this condition has been complied with by the Banco Comercial Antioqueño.

However, Señor Córdoba stated that from time to time he received requests from the fiduciary administrators of Proclaimed List firms under the administration of the Colombian Government to open irrevocable letters of credit for such firms for transactions abroad. If the Banco Comercial Antioqueño complied with such requests, it would be acting contrary to the economic sanctions of the United States Government. If it refused to comply with such requests, its denial would constitute a refusal of a request made of it by an official entity of the Colombian Government which has the Proclaimed List firm under its administration and control.

I have discussed this matter with the Minister of Finance and he stated that he would issue instructions to the fiduciary administrators of Proclaimed List firms not to make such requests of the Banco Comercial Antioqueño.

The foregoing report is submitted for the Department's information.

Respectfully yours,

For the Ambassador:
CHARLES A. LIVENGOOD
*Counselor of Embassy for
Economic Affairs*

840.51 Frozen Credits/10710 : Telegram

The Chargé in Colombia (Warren) to the Secretary of State

BOGOTÁ, June 19, 1943—11 a. m.

[Received 3:12 p. m.]

1061. Reference despatch 1768, March 3, and despatch 1782, March 12.²⁶ In accordance with powers granted by Law VII of 1943, Colombian Government issued decree 1207 of 1943 on June 18 providing for liquidation and exportation of Axis enterprises under fiduciary administration.

Generally, Axis enterprises must be liquidated within 4 months after ordered to do so by Government. If not liquidated within that time fines of 100 to 10,000 pesos will be imposed and enterprise will then be liquidated by fiduciary administrator and banking superintendent and proceeds of liquidation deposited in stabilization fund.

If Government in agreement with National Economic Defense Board decides that firm should be nationalized rather than liquidated because of importance to national economy, expropriation of property of enterprise shall be ordered and Attorney General will institute expropriation suit before proper court. Compensation fixed will be deposited in stabilization fund with proceeds invested in bonds provided for by articles XIII, XIV and XVI of Law VII of 1943.

Full report ²⁷ with Spanish text and English translation of decree follows.

WARREN

811.515/2072 : Telegram

The Chargé in Colombia (Warren) to the Secretary of State

BOGOTÁ, July 5, 1943—1 p. m.

[Received 5:12 p. m.]

1151. Embassy's telegram No. 1121, June 30, 1 p. m.²⁷ Based on a study made for the Minister of Hacienda by the Banco de la República, the former informed the Embassy today that in view of the

²⁶ Latter not printed.

²⁷ Not printed.

strict regulations already governing transactions in dollar currency provided for in extraordinary decree 1528 of 1942, the new measures suggested for consideration in the Department's circular airgram of April 7, 8:10 p. m.²⁹ would cause no difficulty in Colombia, and that the appropriate Colombian agency would be ready if requested to notify the public along the lines indicated in the Department's airgram under reference.

He said that he wished to make clear however that the regulations under consideration should not become effective in Colombia prior to such notification to the public by the Colombian authorities and that his expressed conformity with the proposed regulations was subject to the following conditions, which he understood to be envisaged in the Department's circular:

(a) That American notes now possessed by the Banco de la República will be accepted by the authorities of the U. S. when sent for collection to the Federal Reserve Bank.

(b) That the Banco de la República can continue to purchase from travelers small residues of American currency, these likewise to be accepted when sent for collection;

(c) That the new regulations will not apply to remittances of notes previously despatched and which are under study by the respective American authorities.

WARREN

810.506/28

The Ambassador in Colombia (Lane) to the Secretary of State

No. 2539

Bogotá, August 5, 1943.

[Received August 13.]

SIR: I have the honor to refer to the Department's circular instruction of July 1, 1943,³⁰ concerning elimination of enemy influence from insurance.

This Embassy has carefully considered the proposals made in the Department's instructions under reference and submits the following comments in connection with the suggested program:

As stated in this Embassy's despatch no. 3833 of March 11, 1942,³⁰ concerning Axis Insurance Companies in Colombia, the only enemy company now operating in Colombia is the Italian company Assicurazioni Generali—Tireste [*Trieste?*] (PL³¹). The only change in the situation since the date of this despatch is that the Medellín agent, Alfredo Miani, is included on the Proclaimed List and it has been defi-

²⁹ Not printed: this airgram transmitted a Treasury Department proposal that it not release currency received in the United States for collection after a given date on the assumption that the currency was Axis-tainted. (811.515/1911b)

³⁰ Not printed.

³¹ Proclaimed List.

nately established that the Cartagena agent of Assicurazioni is Vicente Gallo Jr. (PL). Reference this Embassy's despatch No. 4076 of April 20, 1942.³²

The Embassy has been informed recently that the Banking Superintendent (under whose jurisdiction the management of Axis insurance companies was placed by Article 17 of Decree 147 of January 26, 1942, and Article 5, of Decree 1552, June 30, 1942) has granted the Assicurazioni a renewal of its license to operate as an insurance company in Colombia. This action has been discussed with officials of the Ministry of Finance and is now under discussion with the Colombian Consultative Commission.

It is believed that Proposal No. 1, to request each government to prohibit all insurance and reinsurance transactions with companies in enemy territory, would be adopted by the Colombian Government. As a matter of fact, it is believed that existing communications control measures in Colombia preclude such transactions, and in any event the only company in Colombia possibly engaging in such transactions at the present time is the Assicurazioni. No instance of Colombian insurance companies engaging in insurance or reinsurance transactions with companies in enemy territory has come to the attention of this Embassy.

With reference to Proposal 2, the Embassy is now endeavouring to have the Colombian Government take appropriate measures to eliminate the Assicurazioni, the only enemy insurance company in Colombia, from the insurance business. Insofar as directors, officers and other insurance personnel on the Proclaimed List are concerned, the Embassy concurs that the influence of the insurance licensing body will probably prove most effective in securing their elimination. Furthermore, existing control measures in Colombia, plus the licensing system, if properly applied, are deemed sufficient to accomplish the desired purpose and additional measures would not be necessary.

No instance has come to the Embassy's attention of any Colombian insurance company ceding, retroceding, or accepting reinsurance to or from any insurance company which appears on the Proclaimed List. The elimination of the only existing enemy insurance company in Colombia will not result in a deficiency of facilities in Colombia.

With reference to Proposal 3 concerning the problem of the neutral European companies,³³ this Embassy has no comment to make except that the proposed procedure seems most desirable.

With reference to Proposal 4, it is believed that in connection with

³² Not printed.

³³ This proposal contemplated the routing through and subjecting to United States censorship of all correspondence and records of neutral European companies doing insurance business in the American Republics.

the general plan, the local companies in Colombia can be persuaded to agree not to insure any persons on the Proclaimed List or any property in which such persons have an interest, with the exception of the property of those persons or firms under the fiduciary administration of the Colombian Government. As the Department knows, the Colombian company, Cía. Colombiana de Seguros, has in the past been suspected of writing new insurance for Proclaimed List nationals and of renewing existing insurance for Proclaimed List nationals. However, as stated in this Embassy's A-276, November 17, 1942,³⁴ assurances had been received from the Cía. Colombiana de Seguros that no new insurance would be written on listed firms except firms under the administration of the Colombian Government for the reasons therein stated. It is felt that other Colombian companies will feel under the same obligation to accept insurance on listed firms under Government administration where requested to write such insurance by the Government representative. However, it is believed that this is a matter which can be worked out with the Colombian Government, particularly if provision is made for exceptions in special cases. In this connection, it is known that Cía. Colombiana de Seguros has in recent weeks refused to renew existing policies on listed persons and firms and it is felt that this company is complying with its assurances to this Embassy not to write new insurance on listed persons and firms, except, as stated for listed firms under the administration of the Colombian Government.

With reference to Proposal 5, only one case of enemy and Proclaimed List insurance companies insuring property owned by United States or British citizens, or property of firms producing war materials for the United States, has come to the attention of this Embassy, and this case involved one Harry Constantin of Bogotá, a British national. He was instructed to cancel this insurance with the enemy company. The cession, retrocession, or reinsurance of insurance by the various Colombian companies is with United States and British concerns.

With reference to possible leakage through insurance companies of information on cargos and ship movements to and from United States ports, a full report in this connection was made to the Department in this Embassy's A-24 of July 30, 1942,³⁴ in which the conclusion was reached that leakage of information through insurance companies in this country can be discounted as entirely negligible. The report contained in this Embassy's A-24 that the Proclaimed List national, Giordano Zollia, head of Assicurazioni, was doing some marine insurance business which he is passing on to the Cía. Colombiana de Seguros, has not been confirmed and is believed to be without

³⁴ Not printed.

foundation, at least insofar as his passing this business to the Cía. Colombiana de Seguros is concerned.

In conclusion, the Embassy perceives no objection to the application in Colombia of the concrete proposals made in the Department's instruction under reference.

Additional personnel to carry out the proposal in Colombia is not deemed necessary.

Respectfully yours,

For the Ambassador:

BARRY T. BENSON

Acting Commercial Attaché

740.00112A European War, 1939/34964 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, August 18, 1943—8 p. m.

1028. Your A-622, August 5, 1943.³⁵ Alien Property Custodian has informed the Department that it would be prepared to send a mission to Colombia which would arrive about September 15, if the Colombian authorities expressed their desire to receive such a mission.

The proposal of the Custodian's Office is in general acceptable to the Department. However, it will be subject to further discussion prior to the mission's departure. Accordingly, it is suggested that you refrain from discussing the details of the proposal with the Colombian authorities. You may, however, indicate that in general the Alien Property Custodian will attempt to work out with the Colombian authorities an effective program for the replacement of Axis interests in the drug and chemical field.

Please inform the Department of any reaction of the Colombian authorities.

HULL

740.21112 RP/6a

The Secretary of State to the Ambassador in Colombia (Lane)

No. 1570

WASHINGTON, September 7, 1943.

SIR: Reference is made to the Department's telegram no. 1093 of September 1, 1943,³⁵ in which you were informed that an instruction was being prepared in connection with the replacement of Axis drug and chemical firms in Colombia. As was therein stated, in view of the importance of the forthcoming negotiations, the Department has had under consideration the question of the relevant policies and procedures. The views of the Department are as follows:

³⁵ Not printed.

1. It is believed that direct preliminary discussions should be held with the Colombian officials to establish an understanding on the economic warfare objectives which the two Governments would wish to achieve in connection with our assistance in the proposed Colombian program. Your telegram no. 1443, August 20, 1943,³⁷ indicates that these points (which are in line with the Resolutions adopted at the Washington and Rio Conferences) are mostly acceptable to the Colombian Government.

It is believed that the general framework for negotiations should include the following points, established on a basis of a direct government-to-government understanding.

a. If any of the properties is sold or otherwise transferred, or if any funds accrue for any other reason, it should be agreed that the proceeds will be specially blocked beyond the reach of the German owners for the duration of the war. Should Colombia be willing to agree to payment of any such funds directly into the Colombian treasury without segregation and to await final disposition at the end of the war, that solution would be most acceptable. In any event, mere freezing of the account against withdrawals would probably not be sufficient since the objective is to block the funds in a manner which will insure that the owners cannot realize any present advantage by pledging the frozen accounts or by other similar means.

b. It should be agreed that trade between the nationalized firms and any Axis or Proclaimed List firms will be eliminated. Elimination of supply contracts with Axis or Proclaimed List firms and a guarantee that such trade will not be resumed for the war period should be a condition of American supplies. Cancellation of such supply arrangements will be satisfactory if it is made to coincide with the arrival of sufficient American supplies in Colombia to take care of health purposes. To clear the way for replacement of Axis trade by other arrangements, there should be direct cancellation of any existing contracts with Axis firms under which the manufacture, importation, or exportation, or other distribution of the products involved is limited. However, the cancellation procedure should preserve the patent and trade-mark rights of the vested companies.

c. With respect to Axis trade-marks, trade names and patents, the Department's views are set forth in its circular instructions of July 17 and July 20, 1943.³⁸ It is believed, in view of the apparent willingness of Colombia to liquidate the Axis enterprises, that cancellation of the Axis trade-marks or a forced transfer to desirable purchasers who would guarantee not to use such marks would be acceptable.

d. American assistance would also be conditioned upon elimination of Axis personnel from the nationalized firms. It is realized that a program for the elimination of Axis technical personnel will be largely dependent upon finding suitable replacements. However, it is believed that this Government should have the assurance of the Colombian Government that it is the intention of the latter to discharge all unsatisfactory personnel as rapidly as is feasible. In this

³⁷ Not printed.

³⁸ Neither printed.

connection it might be well also to raise the problem of preventing the discharged personnel from engaging in subversive activities and to determine what steps Colombia would be willing to take to insure that discharged employees would not become a source of danger to hemispheric security.

e. It is desirable that in connection with the contemplated forced transfer, the Colombian Government should agree to prevent the acquisition, directly or indirectly, of any interest in the vested properties by either Axis nationals or persons whose connections with Axis enterprises make it likely that they would be subservient to Axis control after the war.

2. The Department has also formulated certain standards which it is believed should be met by companies which may make contracts with the nationalized firms. It is believed that these standards are not a proper subject of direct government-to-government negotiations in the same manner as would be the measures outlined above. However, you may desire to communicate certain of these points to officials of the Colombian Government and to officials of negotiating companies. In the latter category are included the representatives of the Alien Property Custodian.

a. So far as possible ownership and management of the vested companies should be in the hands of suitable Colombian nationals. Participation by United States interests should be limited to a minority financial participation and/or a management fee contract. Management contracts should run for fairly limited periods so that retention of control in American hands will not persist unduly. On the other hand, such management contracts should be for a period long enough so that reacquisition of an interest in the vested companies by the Axis immediately after the war would not be facilitated.

b. Management contracts should provide for subsequent management by Colombians through programs for the training of Colombian executive and technical personnel.

c. In the development of supply or management contracts by United States concerns, participation in the Colombian market by as many concerns as is reasonably possible in view of the number and character of the vested establishments should be facilitated. Except where combinations would be clearly desirable because of technical advantages, the vested establishments should be encouraged to retain separate identities and be separately managed, and to the extent feasible, no one American company should be encouraged to enter into management or exclusive supply contracts with more than one of the vested establishments. In order to prevent combinations in the management operations between the several American concerns which may not be provided for in the contracts, it would be desirable to have included in the management contracts provisions that the companies which initially received separate management contracts shall not combine in their Colombian operations. This provision is to limit only such combinations without Colombian consent, and a Colombian decision will of course be decisive in such matters.

d. Control over general importation into and distribution within Colombia should not be given to companies receiving management contracts except in so far as the importing functions are directly related to the manufacturing. Great care should be taken to prevent any measures which would impair the access of other exporters to the Colombian market.

e. Exclusive or preferential supply contracts should be avoided except for those which may be desirable because of the technical or special services to be rendered by distributors, and for such similar contracts, limited so far as may be to the duration of the war, which may be necessary to obtain scarce supplies for Colombia during the war.

f. American companies which undertake management contracts for manufacturing activities should make their relevant patents and "know-how" fully available for operation of the related Colombian establishments, without restriction other than royalty on a most-favored-concern basis; and should undertake to foster Colombian research, at least sufficient to improve the products made and the processes undertaken.

g. No commitment should be made or unnecessary obstacle be interposed to exclude any vested concern from particular lines of products, sales territory, or customers, or otherwise to require the observance of unreasonable restraints on the activities of such concerns.

h. Contracts involving manufacture should be designed to promote the further development of Colombian industry in those lines which give a reasonable indication that production may be carried on economically after the war without long-term tariff or other special protection.

i. Participating American companies should guarantee that trade-marks having Axis connotations will not be used, except in so far as they may be generic and open for general use.

j. If an American company should acquire the present inventory of an intervened enterprise, satisfactory assurances should be obtained of the intention of that company to remain in the Colombian market for a reasonable period after the war.

3. The standards stated above in paragraph 2 are chiefly relevant to the situation in which an American concern may make a contract with one of the vested companies. It is recognized, however, that another and simpler method of bringing American supplies into the Colombian market and excluding Axis supplies therefrom may be the liquidation of the Axis companies and the distribution of American products through new or existing desirable distributors. In this connection your attention is drawn to the survey requested in the Department's telegram no. 1071 of August 26, 1943.³⁹ Thus, the Colombian authorities have indicated that they are willing to sell the Bayer inventory, to eliminate the Bayer trade-marks, and to discharge the Bayer personnel. Since the Colombian authorities appear willing to liquidate

³⁹ Not printed.

the Bayer enterprise, and since that concern is the largest drug and chemical house in Colombia, it seems likely that they may be willing to take similar steps with regard to such houses as Schering and Merck.

It may therefore be that the Alien Property Custodian's companies, or other American companies, may find it simpler and equally or more satisfactory to Colombia to negotiate supply or management contracts with desirable Colombian distributors who have had no Axis connections, or to expand existing desirable Colombian distribution and/or manufacturing outlets. These contracts would contemplate active participation by desirable American companies in the Colombian market and the distribution of their products by wholesalers who were without Axis taint. At the same time, the Axis drug and chemical concerns would be entirely liquidated in the manner tentatively outlined for Bayer and the proceeds of the liquidation would be effectively blocked. Trade-marks and patents would be disposed of in a manner consistent with the Department's circular instructions on trade-marks and on patents. Separate management or supply contracts could be made for those manufacturing facilities which the Axis concerns in Colombia presently operate. It is the Department's understanding that the principal concern of this sort is the Behring Institute and the packaging and similar machinery owned by the Axis concerns could easily be disposed of to whatever desirable distributors might make contracts with American suppliers. Should this suggestion be followed, expansion of manufacturing facilities in Colombia would be encouraged, but on a basis which would envisage the establishment of new companies to carry on such manufacture, probably in collaboration with strong American drug and chemical houses.

These suggestions have the primary and strong advantage of removing those numerous problems which flow from the association of an American company with a concern which has previously been an instrument of Axis economic policy. Since the manufacturing facilities of the Axis companies in Colombia are believed to be slight (with the exception of the Behring Institute) it is thought that there would be no particular loss to the Colombian Government in destroying these Axis distributing organizations. The necessary supplies could the more readily be brought into Colombia because no suspicion of an Axis taint would hang over the Colombian distributors. Such a course of action would also solve automatically such problems as the one of retention of the Schering name.

The pattern above outlined is, of course, similar to the one being discussed by Sterling. It is believed that the Alien Property Custodian companies may well be entirely willing to take part in a program

along these lines and that several American companies would be willing to bring into Colombia products, under such a procedure, which would more than take the place of those products now wholesaled by such firms as Merck.

You should discuss this matter with the appropriate Colombian authorities. Should this approach be followed, in whole or in part, by the Colombian Government, such information as may be ascertainable on Colombian distributors who would be willing and able to go into the drug and chemical field can be made available to interested American companies. In this connection, of course, the survey requested by the Department's telegram under reference will be extremely valuable, and should be forwarded to the Department as soon as possible. The Department of Commerce will then be requested to bring desirable American companies into the Colombian picture.

4. The Department considers it highly important that all desirable American companies be given an opportunity on equal terms to negotiate contracts for the supply of drugs and chemicals to Colombia, and for the management of such of the Axis companies as Colombia may decide to vest and to continue. For this reason, it is desired that the Embassy keep the Department currently informed of any negotiations, and that all relevant information be transmitted to the Department, so that American firms may be informed. Similarly, it is not desired to give the impression that the companies controlled by the Custodian—as carefully distinguished from the representatives of the Custodian, who are representatives of a government agency and not of particular companies—should be accorded special privileges in the Colombian negotiations. The Custodian's companies are under the present control of this Government, and it may be expected that their attitude will be shaped by governmental considerations to a larger extent than would be the attitude of a private company. It may well be, further, that the facilities of the Alien Property Custodian will be useful in bringing about contacts with other American companies or in making reports which could be made available to the American industry. Finally, it is quite probable that the Custodian's companies are sufficiently expert in certain particular lines that contracts with them may be highly desirable from the point of view both of Colombia and of those companies. However, the companies under the control of the Custodian are in competition with other American concerns, and governmental control is not expected to persist permanently. The Department, therefore, wishes to emphasize that the impression should not be given that companies under the control of the Custodian are especially favored, all other things being equal.

This attitude of the Department is clearly understood by representatives of the Alien Property Custodian in Washington who have, in fact, made preliminary inquiries among several other drug and chemical firms and received favorable indications that the latter would be interested in participating in the Colombian market. It has been indicated by the Custodian's representatives, further, that the Sterling negotiations are not inconsistent with the negotiations to be carried on by the Custodian's representatives and may, in fact, supplement these negotiations in a way which will result in mutual advantages.

5. It should be recognized that the standards described in this instruction are designed as preliminary guides, and not as final touchstones. It may appear desirable to modify them in some respects. Moreover, it is emphasized that final agreements with the former Axis firms, or involving dealings with those firms, are to be cleared with the Department before being finally signed.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

740.21112A/78: Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

Bogotá, September 25, 1943—1 p. m.

[Received 6:37 p. m.]

1710. Mr. Robert Parrish, Chairman of the Coordination Committee,⁴⁰ who has a wide knowledge of persons and conditions in Colombia, has submitted for our consideration the suggestion that if the Department plans to ease restrictions upon Italian firms in Colombia as a result of developments in Europe, we should do so at once and not wait for the impact of events to force us to do so. He expresses the thought that we should remove at once from the Proclaimed List those firms against which we have the least adverse information, stating that we will get much more credit if we take this step now rather than if we delay until this situation is clearly defined in Italy.

On September 23 President López asked me if I had any instructions as to reconsideration of the position of Italian firms [and] Italian citizens in Colombia, as undoubtedly this problem will have to be faced shortly by the Colombian Government.

In recent weeks officials of the Banco de la República (the Government entity charged with the administration of practically all enemy firms and of the blocked accounts of enemy nationals) have been quite insistent with officers of the Embassy in inquiring as to the pos-

⁴⁰ An agency of the Office of the Coordinator of Inter-American Affairs.

sibility of the United States easing restrictions on Italian nationals as a result of military developments, and have stressed the desirability of unified and simultaneous action in the event the sanctions or controls are eased with reference to any particular group.

I should be glad to receive the Department's telegraphic instructions as soon as a decision is reached on this important question of policy.

LANE

740.21112A/78 : Airgram

The Acting Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, September 30, 1943—6 p. m.

A-1110. Reference your telegram no. 1710 of September 25 concerning Proclaimed List policy with respect to persons of Italian nationality in view of recent events in Italy.

The Department will shortly issue a circular instruction on this subject. The following are current views of Interdepartmental Committee:

It is important to bear in mind that additions to the Proclaimed List have been made on the basis of pro-Axis activities and in no case has a person or firm been included solely on the basis of German or Italian nationality. Recent developments with respect to Italy cannot be regarded as requiring any automatic change of status of any Proclaimed List national.

The questions and suggestions of President López, the Banco de la República, and Parrish indicate a belief that Italian nationality has been a basis for inclusion in the list. It is suggested that you make clear to them that such is not the situation but that persons engaged in pro-Axis activities have been put on the list regardless of nationality, including American and British nationals. In other words, persons have been included in the Proclaimed List not because they were Italians but because they were Fascists or Nazis or were working for an Axis victory.

Before consideration could be given to deletion of any particular names there would at the least have to be concrete evidence that the pro-Axis activities which led to inclusion were no longer being carried on.

You are requested to forward a detailed report on the effect of recent events in Italy upon the political sentiments of Italians in Colombia generally and upon Italian Fascists in particular with special regard to pro-Fascist Italians who have been included in the Proclaimed List.

BERLE

811.515/2072: Airgram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, December 28, 1943—6 p. m.

A-1360. Treasury has learned from a representative of the Federal Reserve Board, recently returned from a tour of South America, that the Banco de la República is holding United States dollar currency in the amount of approximately \$45,000, allegedly obtained from travelers and the Embassy, which it is reluctant to forward to the United States because of the possibility of such currency being impounded.

It would appear that such hesitation by the Banco de la República probably results from the uncertainty expressed by the Minister of Hacienda ⁴¹ over the three conditions outlined in the Embassy's telegram no. 1151 of July 5, 1943. Substantially such conditions are included in the cut-off plan as proposed by Treasury (Department's circular airgram of April 7, 1943 ⁴²) about which instructions will soon be sent to the various Missions. However, it is believed desirable that the bank's doubts concerning the release of the currency should be resolved as soon as possible.

The Embassy is requested in its discretion to discuss this matter with the Banco de la República. If the Embassy is in a position to certify the source of the funds under reference, the Banco de la República should be informed that the Treasury Department does not anticipate any undue delay with respect to its release should such currency be forwarded to the United States for collection.

HULL

NEGOTIATION OF AN EXPORT-IMPORT BANK LOAN TO COLOMBIA
FOR AGRICULTURAL PURPOSES

821.61/58

The Ambassador in Colombia (Lane) to the Secretary of State

No. 1390

BOGOTÁ, January 13, 1943.

[Received January 21.]

SIR: I have the honor to refer to conversations which Dr. Miguel López Pumarejo, President of the Caja de Crédito Agrario, Industrial y Minero, held last July and August in Washington with Mr. Laurence Duggan, Adviser on Political Affairs of the Department of State, and Dr. Atherton Lee, then of the Board of Economic Warfare, with regard to the possibility of obtaining a credit from the Export-

⁴¹ Carlos Lleras Restrepo.⁴² See footnote 29, p. 58.

Import Bank in the amount of fifteen million dollars for the development of a general agriculture plan.

The plan as originally drawn up was approved in general terms by Dr. Lee but has since been amended by the Colombian authorities along the lines of the attached memorandum.⁴³ Dr. López Pumarejo has requested that this memorandum be transmitted to Washington so that in case it is found to be satisfactory it may be used as a basis for discussion with the Export-Import Bank.

In general the proposal is as follows: That a corporation be formed as a subsidiary to the Caja de Crédito, financed by a fifteen million dollar line of credit from the Export-Import Bank, the loan to be secured by the shares of the corporation. The Corporation would be governed by a board of six directors, three to be named by the Caja and three by the Bank. The personnel of the corporation would be named by the directors. The directors would be mutually acceptable by the bank and Caja.

The following are the suggested projects as included in the amended plan:

Irrigation.....	\$2, 500, 000
Fertilizer plant.....	1, 000, 000
Insecticide and Fungicide.....	100, 000
Short-term Agricultural credit.....	1, 000, 000
Long-term Agricultural credit.....	1, 000, 000
Parcellation of land.....	1, 000, 000
Small process and distribution plant.....	2, 000, 000
New crops.....	4, 000, 000
Experiment stations.....	500, 000
Nurseries.....	400, 000
Exploitation of coal.....	750, 000
Bagasse.....	750, 000
Total.....	\$15, 000, 000

Dr. López Pumarejo mentioned that the nitrogen fixation plant, included in the previous plan, had been eliminated and that agricultural experimentation stations had been introduced in its place. He also suggested that one of the following two courses of action be adopted:

1.—That two representatives of the United States Government, one or both to be from the Department of Agriculture, to be sent to Colombia to discuss with Colombian officials the proposals in detail; or

2.—That Dr. Miguel López Pumarejo proceed to Washington with an agricultural technician to discuss the proposal in detail with the competent authorities of the United States Government.

⁴³ Not printed.

The Embassy would appreciate receiving the Department's comments with regard to these suggestions.

Respectfully yours,

For the Ambassador:
FLETCHER WARREN
Counselor of Embassy

821.61/74 : Airgram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, April 3, 1943—1 p. m.
[Received April 9—noon.]

A-274. My telegram No. 572, March 31, 7 p. m.⁴⁴

President López ⁴⁵ had referred to the agricultural plan casually at a reception on March 27. He had stated in a somewhat joking vein, although obviously serious beneath, that now that the elections are over, the electorate is going to demand of the Government some constructive progress within the country, especially in the field of agriculture. He said he hoped therefore that we would endeavor to assist him and his country. I replied, in the same vein, to the effect that I did not wish to take part in internal politics but that I would be glad to see what could be done to help Colombia.

In view of the forewarning, I had with me the previous correspondence when the President summoned me on March 31. I asked him whether he had any concrete comments in addition to those made by his brother Miguel, as reported in Embassy's despatch No. 1390, January 13, 1943. The President replied that he had some very concrete comments and proceeded to give them to me:

The people of Colombia consider, because Congress has authorized the issuance of sixty million pesos in economic defense bonds, that the Government is "overflowing" with money. Such is not the case. The following are the figures regarding the Government's present financial obligations:

<i>Pesos</i>	
12, 000, 000.....	1942 deficit
24, 000, 000.....	1943 estimated deficit
5, 000, 000.....	Debts to various Departments (State Governments)
2, 000, 000.....	Grant to Instituto de Fomento
1, 000, 000.....	Grant to Caja de Ahorros
10, 000, 000.....	Public Works, including buildings and roads
6, 000, 000.....	Miscellaneous appropriations
60, 000, 000.....	Total

⁴⁴ Not printed.

⁴⁵ Alfonso López.

There is always the danger that the estimated deficit for 1943 of 24 million pesos may attain a higher figure, such as 36 million pesos, if conditions caused by the war continue at the present rate. The Government, therefore, finds itself in a financial situation which is critical and which it hopes the United States will find itself in a position to alleviate.

The Government has endeavored to avoid inflation through an increase of 35 percent of income taxes and a compulsory provision that 50 percent of the amount of income tax payments shall be invested in economic defense bonds.

Just as the President took the position in 1939, when a director of the Electric Light Company, that war was inevitable (against the advice of the other directors who tried to persuade him to buy machinery from Switzerland), now he takes the position publicly that the war will end within the next six or twelve months. If he did not take that position publicly, an economic and financial disaster might be expected in Colombia, due to the increasing critical situation of the Government because of lack of importations and consequent decreased revenue. The people of Colombia are in no mood to appreciate the seriousness of the situation. Instead of pulling together, they are indulging in luxurious, individualistic thought without regard for the morrow. In this Administration the President wishes to accomplish two things: (1) improvement in agriculture, and (2) road building. In the latter respect he contemplates the following highways: Medellín-Turbo; Medellín-Cartagena; Bogotá-Rio Hacha; Cali-Buenaventura; as well as lesser highways in the Putomayo.

The ten million dollar credit advanced by the Export-Import Bank to the Banco de la República in 1940 still has five years to run.⁴⁶ Of this sum, the Banco de la República still has a balance of eight million dollars on hand. It would be of the greatest help to the Colombian Government if the Export-Import Bank, at the request of the Department of State, would extend for a period of eight years as from now a credit of eight million dollars to the Government of Colombia, permitting the Banco de la República to transfer its balance to the credit of the Government. The Banco de la República can well afford to do this, having sufficient reserves, and the extension of this credit to the Government would enable the Government not only to proceed with the liquidation of some of its obligations but also to start constructive work on road-building.

The President said that he would be extremely grateful to the Department for any support which it could give to this situation which, he assured me, he is not exaggerating in any respect.

In setting forth the President's views as outlined above, the Department may wish to review Annual Economic Review No. 10, dated January 7, 1943, Report No. 160, dated March 16, 1943, and Report No. 185, dated March 29, 1943.⁴⁷

LANE

⁴⁶ For correspondence concerning this loan, see *Foreign Relations*, 1940, vol. v, pp. 695 ff.

⁴⁷ None printed.

821.61/74

*The Chief of the Division of the American Republics (Bonsal) to the Adviser on Political Relations (Duggan)*⁴⁸

WASHINGTON, April 13, 1943.

DEAR LARRY: I have thought that you would find it helpful to know upon your arrival in Bogotá that since you left Washington the subject of the Colombian agricultural plan has been discussed on several occasions by Dr. Moore⁴⁹ of Agriculture, Mr. Arey⁵⁰ of the Export-Import Bank, and some of us in the Department. We all want to be of assistance in the most cooperative way to aid and encourage the sound development of Colombia's agricultural possibilities.

Instruction no. 1129 of March 26⁵¹ informed the Embassy in this sense and authorized the Ambassador to tell the appropriate Colombian officials that the Department would be glad to discuss this plan in Washington with those officials which the Colombian Government might wish to designate.

It seems probable that both Vice President Wallace and yourself may be approached about this subject.⁵² President López spoke to the Ambassador on the 31st of March saying that he would be most appreciative if the Department would support the \$15,000,000 credit which is desired from the Bank, and mentioned that for political reasons he is particularly anxious agricultural activities progress. The President at the same time expressed his wish that the obligation for the slightly over \$8,000,000 balance of a loan made to the Banco de la República by the Export-Import Bank should be transferred to the Government and be allowed to run for eight years instead of the five years which would otherwise remain as the period of the loan. Mr. Lane reported on this subject by telegram and in strictly confidential airgram no. 274 of April 3.

With regard to the transfer of the obligation from the Banco de la República to the Government, this will undoubtedly have the approval of the Export-Import Bank but it will need a definite clearance when Warren Pierson⁵³ is back in town tomorrow. The idea of the \$15,000,000 loan on the agricultural plans along the lines of Dr. Miguel López's project has, at best, received a lukewarm reaction from the Export-Import Bank, and Ross Moore. While fully supporting the

⁴⁸ Addressed to Mr. Duggan in care of the American Consulate at Cali, Colombia.

⁴⁹ Ross E. Moore, Assistant Director, Office of Foreign Agricultural Relations, Department of Agriculture.

⁵⁰ Hawthorne Arey.

⁵¹ Not printed.

⁵² For correspondence on the visit of Vice President Wallace and Mr. Duggan to certain American Republics, see vol. v, pp. 55 ff.

⁵³ President of the Export-Import Bank.

desire to help in the most effective way, they, along with some of us in the Department, are very doubtful of the wisdom of some of the specific projects for which the loan is requested. Dr. Moore considers that any agricultural development must be closely related to the construction of roads and other communications facilities and that this would particularly influence any decision as to how wise it might be to make any general allotments for some of the short and long-term agricultural projects. The allotment, too, of a million dollars for the parceling of properties has also not been favorably looked upon. The Bank has said that if a loan is made it is preferable simply to make a block allotment which could be used for projects the Bank would approve and that the Bank would prefer not to get into a Development Corporation.

All of those who have discussed this subject are in agreement that we should give technical assistance to Colombia, although Dr. Moore has pointed out that no large number of technicians would be readily found in the United States for immediate service. However, he believes there are some young men who have been trained here who might apply their experience in Colombia and be of some service. It will, unquestionably, be desirable to provide funds to cover essential equipment and other material which must be imported from the United States, but present war conditions would make it unwise to give any definite commitment as to quantity or time of delivery. I know that as you will be on the ground and able to talk this over first-hand with Mr. Lane that you can determine to best advantage what influence political considerations should have in the extension of any part or all of the loan which is now requested.

It seems to me quite likely that when you are discussing agricultural matters, some reference will come up in connection with the draft of a suggested agreement between the Secretary of Agriculture of the United States and the Minister of National Economy of Colombia, which was the outcome of the talks Dr. Moore had when he was in Colombia last November. This primarily had to do with the establishment of an agricultural experiment station in the Río León Valley. If this were carried out, it would provide for a very modest expenditure by this Government. I think that this may have been laid aside by the interested officials in Colombia in view of the more elaborate agricultural plan which Miguel López has subsequently proposed.

I expect that you will wish to point out the desirability of having the entire matter studied in Washington after Dr. Miguel López or some other designated person, or persons, come here for that purpose, as this will permit a more thorough consideration of all angles of the

problem than it is believed could be given if negotiations were carried on in Colombia.

When you return we shall look forward very much to having the advantage of your opinion on this entire subject after the discussion which your visit will have afforded.

With kind regards,

Sincerely,

P[HILIP] W. B[ONSAL]

821.61/74 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, April 17, 1943—6 p. m.

498. Your A-274, April 3, 1 p. m. Both the Export-Import Bank and the Department have given serious thought to and have discussed the point of view expressed by President López and by you in your recent message regarding financial assistance to Colombia. The Department and the Bank have reached the following conclusions:

1) It is recognized that the conditions under which the \$10,000,000 credit was extended to Banco de la República may no longer prevail. It is also appreciated that the Banco may not wish to continue servicing a credit for which it is presumed it has no immediate use.

2) Both the Bank and the Department are sympathetic with President López' desire to promote further constructive activity in Colombia including the improvement of communications and the development of agriculture. The Export-Import Bank is willing to discuss further credits.

3) As a preliminary to such discussions both the Department and the Export-Import Bank believe it would be desirable for the Banco de la República to liquidate the balance of approximately \$8,000,000 outstanding on the exchange credit.

4) We are concerned lest borrowing by Colombia of dollars for deficit financing and internal expenditures may result in further inflation and the laying up of possible future financial troubles.

As indicated by Department's instruction No. 1129 of March 26⁵⁴ it is believed that a good deal of discussion and examination of possibilities will have to proceed [*precede*] any decision in this matter.

It would be helpful if you could inform us immediately whether the new Colombian Ambassador has any specific instructions in this matter.

It will be appreciated if you will bring the contents of this telegram to the attention of Mr. Duggan immediately upon his arrival.

HULL

⁵⁴ Not printed.

821.61/74 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, April 28, 1943—8 p. m.

551. From Duggan. Reference Department's cable 498, April 17, 6 p. m. Please inform Miguel López that the Department and other interested Government agencies will be glad to initiate discussions of the Agricultural plan with him and his advisors in Washington on May 12 or thereafter at his convenience. It has seemed impracticable to suggest an earlier date since Ross Moore of Agriculture who has followed this subject closely is now absent from Washington and will probably be unable to return until several days later than the 12th.

In paragraph numbered 3 in the Department's cable 498 of April 17 reference was made to the liquidation of the loan to the Banco de la República to facilitate consideration of new loans for roads and agricultural development in which the Colombian Government has now expressed its interest. It will be helpful to the Department to know if the President intends that Miguel López will negotiate regarding the present Banco de la República obligation in addition to the agricultural credit, since it is felt that such financial matters are necessarily related.

It is requested that you inform President López of the information contained in this present cable. [Duggan.]

HULL

821.61/74 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, April 30, 1943—9 p. m.

566. Reference Department's cable no. 551, April 28, 8 p. m., and your cable 745 [743] of same date.⁵⁵ It will be satisfactory for Miguel López and his advisors to arrive early in June. Please advise approximate date of arrival as soon as possible. The plan for Ambassador Lleras⁵⁶ to negotiate both propositions is entirely acceptable.

The Department will send you separate instructions authorizing travel to Washington for consultation. It is not foreseeable how long the discussions regarding the agricultural plan may last, and the Department will leave to your decision whether you wish your arrival to coincide with that of Miguel López.

HULL

⁵⁵ Latter not printed.

⁵⁶ Alberto Lleras Camargo, Colombian Ambassador.

821.61/84 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 11, 1943—2 p. m.

[Received 8:50 p. m.]

827. Department's instruction No. 1129, March 26, 1943.⁵⁷ From informal conversations with Colombian officials which should not be considered necessarily as representing official point of view of Colombian Government we have obtained the impression that complications for the Colombian Government may be created in the event that a credit of \$15,000,000 required under the agricultural plan should be considered jointly with the extension of \$8,000,000 credit by the Export-Import Bank to the Government of Colombia (see airgram no. A-274, April 3).

It has been suggested that as \$8,000,000 credit will be primarily for public works projects and as the \$15,000,000 credit will presumably be administered by a corporation specifically set up for agricultural purposes, considerable confusion might result if the two credits were administered by the same entity.

The foregoing is submitted to the Department for consideration pending the arrival of Miguel López and his associates.

LANE

821.61/87 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, May 22, 1943—1 p. m.

[Received 5:57 p.m.]

889. My No. 828, May 11, 3 p. m.⁵⁷ Miguel López informed me this morning that Florez⁵⁸ will not be a member of his party having been forced to withdraw because of private business.

López informed me also that the President approves of the proposal that the 15 million dollar credit desired for the agricultural plan should be separate from the 8 million dollar credit desired for public works.

LANE

821.61/87 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, June 30, 1943—midnight.

818. Your telegram no. 889, May 22, 1 p. m. Following a detailed study of the Colombian agricultural plan by officials of the Depart-

⁵⁷ Not printed.⁵⁸ Manuel Florez Umana, agronomist and one-time associate of the Minister of National Economy.

ment of Agriculture with Miguel López and his Colombian advisers, Mr. Pierson, President of the Export-Import Bank, informed López and the Colombian Ambassador on June 26 that he would recommend to the Trustees of the Bank the extension of a line of credit up to \$10,000,000. If approved by the Trustees, as is expected, this credit may be drawn upon subject to the approval by the Bank of each project for which funds are desired.

Mr. Pierson will also recommend to the Trustees of the Bank the approval of a loan of \$8,000,000 to the Government for road construction to be made available following the repayment by the Bank of the Republic of the balance of its approximately \$8,000,000 loan now outstanding. The new loan would be an increase of the \$12,000,000 loan extended in 1941.⁶⁰

HULL

821.61/111 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, August 28, 1943—5 p. m.

[Received August 29—2 a. m.]

1520. With reference to conversation of August 20 between Messrs. Arey, Moore, Hooker⁶¹ and Keith,⁶² memorandum⁶³ of which was received yesterday, and my telephone conversation with Keith today.

Dr. Miguel López informed me today that Ambassador Lleras had telephoned President López that Export-Import Bank requires a legal opinion that Caja de Crédito Agrario is authorized to negotiate loan with [the Bank?] and that Colombian Government has legal power to authorize Caja to negotiate loan.

Miguel López said that Caja will gladly give us all necessary information but that in Government's opinion it is up to Export-Import Bank and not up to Colombian Government to make the necessary arrangements with legal counsel.

As explained to Keith the matter involved is only one of procedure but I should appreciate being authorized to employ legal counsel for the preparation for such an opinion and will take advantage of López' offer to assist.

Please telegraph.

LANE

⁶⁰ For correspondence on the 1941 extension of credits by the Export-Import Bank, see *Foreign Relations*, 1941, vol. VII, pp. 55 ff.

⁶¹ John S. Hooker, Assistant Adviser on International Economic Affairs.

⁶² Gerald Keith, Assistant Chief, Division of the American Republics.

⁶³ Not printed.

821.61/111 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, September 2, 1943—10 p. m.

1104. With reference your telegram No. 1520, August 28, the Export-Import Bank states as follows:

"It is the Export-Import Bank's practice in all credits to foreign governments or entities to require legal opinion of an attorney of the foreign country, selected and employed by such government or entity without cost to the Export-Import Bank. It will be recalled that such procedure was followed in the cases of the \$10,000,000 credit to Banco de la República and the \$12,000,000 credit to the Republic and it is provided for in the draft of contract submitted to Dr. Miguel López. The Export-Import Bank always accepts the opinion of any attorney who the American Embassy states is a member of the local bar in good standing.

The Export-Import Bank has not yet been informed definitively whether President López desires to use a new section of the Caja or a new corporation although Ambassador Lleras was advised that the Export-Import Bank was agreeable to either medium provided it received satisfactory proof of legality. If a new section of the Caja is to be used and if the latter is to be created by Executive Decree pursuant to existing law the Export-Import Bank should be furnished copies of the *Diario Oficial* containing the pertinent existing legislation and a preliminary legal opinion to the effect that said existing legislation authorizes the issuance of one or more decrees providing for (1) the creation of a new autonomous section having its own board of directors in the Caja, (2) the contracting of a foreign obligation to the extent of \$10,000,000 by the Caja or by the new section in accordance with the general terms and conditions set forth in the draft of proposed contract which was delivered by the Export-Import Bank to Dr. Miguel López, and (3) the unconditional guarantee by the Republic of Colombia of the obligations to be issued by the Caja or by the new section thereof. It was suggested to Ambassador Lleras that the issuance of any such new decree or decrees be postponed until the Export-Import Bank has been supplied with the foregoing.

If the medium selected by President López is to be a new governmental corporation it is assumed that a special law creating this corporation will be drafted to meet the situation and accordingly it will be sufficient for the Export-Import Bank's purposes that it be provided with a legal opinion only after the law has been passed and the contract signed."

HULL

821.61/111 : Telegram

The Secretary of State to the Ambassador in Colombia (Lane)

WASHINGTON, September 6, 1943—10 p. m.

1122. Reference Department's cable no. 1104 of September 2, 10 p. m. The Export-Import Bank is now informed by the Colombian Em-

bassy that the decree law was signed August 14 to provide for the utilization of credit through the Caja de Crédito, such decree having been predicated upon existing legislation. Accordingly, the Export-Import Bank will waive the preliminary legal opinion but, after the contract is in final form and has been signed,⁶⁴ will require satisfactory legal opinion in accordance with provisions of Article 13 of the draft of the proposed contract.

HULL

DISCUSSIONS BY THE AMBASSADOR IN COLOMBIA WITH CHURCH
AND GOVERNMENT OFFICIALS CONCERNING HOSTILITY TOWARD
AMERICAN PROTESTANT MISSIONS

321.1163/17

The Ambassador in Colombia (Lane) to the Secretary of State

No. 2175

Bogotá, May 27, 1943.

[Received June 8.]

SIR: With reference to my despatch no. 2170, of May 24, 1943,⁶⁵ with regard to opposition in Colombia to Protestant missionary activity, I have the honor to enclose a copy of a letter ⁶⁶ addressed to me by the Archbishop Primate of Bogotá,⁶⁷ expressing the deep concern felt, not only by himself, but also by all the other Bishops of Colombia at the possible results of the intensive propaganda now being carried on in this country by Protestant missionaries. The Archbishop's letter was delivered to me by the Papal Nuncio ⁶⁸ who stated that he had himself been requested by the Archbishop to address a protest to the Embassy, but had declined to do so since he realized that it was my duty as Ambassador of the United States to protect all legitimate activities of American nationals in Colombia and that I could not be expected to interfere on behalf of Colombian interests with such activities.

It will be noted that the Archbishop recognizes that I have pointed out to him that the activities of the missionaries are not directed nor encouraged by the Government of the United States, but that he feels nevertheless that the gravity and importance of the situation should

⁶⁴ The contract which was signed on December 30, 1943, provided for a credit of \$10,000,000 for the Caja de Crédito to be used for the purchase of equipment, tools, materials, and services from suppliers not on the Proclaimed List and for projects approved by the Bank. Repayment was to be made in 20 equal installments, semiannually, with interest at 4% guaranteed by the Republic.

⁶⁵ Not printed; the Ambassador reported the prevalence of anti-Protestant propaganda and indicated that Dr. Edward G. Seel, Chairman, Committee on Legal Affairs of the Conference of Protestant Mission Officers in Colombia, agreed that the missionaries should not be allowed to increase their number (321.1163/15).

⁶⁶ Not printed.

⁶⁷ Ismael Perdomo.

⁶⁸ Monseñor Serena.

be brought to the attention of the American Government in order that it may consider whether it might not be desirable and advisable to take some action.

It will be noted also that the Archbishop warns that he and his fellow Bishops, having considered the matter at the conference of Bishops called together last week at El Ocaso, near Bogotá, consider it essential to the fulfilment of their most sacred duties "to sound a note of alarm in defense of the religious faith of the people, and to take the necessary precautions to counteract the Protestant propaganda." "The fulfilment of this duty," he adds, "may occasion, against their intention and will, lamentable difficulties and disturbances of internal public order much more disastrous now than in any other circumstances."

That the possibility of such disturbances is only too actual is evidenced not only by the riot at Fontibón reported in my despatch under reference, but by reports just received of a riot on May 23 at the village of Duitama in the Province of Boyacá.* In the course of a religious procession around the public square of this village, several members of the procession finding themselves passing by the door of the local Protestant mission took the occasion to throw stones at the building. They were immediately imitated by others, and a general attack on the mission developed. Doors were broken down and furniture and church property damaged. The head of the mission, Olger Quanrud, an American citizen, reports that he was struck by stones but not injured. According to press reports the local police force was unable to quell the riot and order was restored only after the arrival of forces from Paipa and Tunja, the capital of the Province. In the course of the riot one police agent was wounded by a gunshot and a second was stabbed. Various civilians received minor injuries from stones. Following the arrival of the forces from Paipa and Tunja some forty-two persons were arrested.

[Here follows a report by an opposition newspaper on the disturbances in Duitama.]

I have thought it advisable for the moment to acknowledge the Archbishop's letter in writing only briefly. (A copy of my reply is enclosed with this despatch.⁶⁹) I have taken occasion, however, to call on the Archbishop and to point out to him that I have an obligation to protect the interests of all United States citizens in Colombia, regardless of their religion or creed, and that when my fellow nationals are

*With regard to anti-Protestant sentiment in Duitama, see the Embassy despatch no. 2074 transmitting anti-missionary leaflet which, it is understood, has been handed out at church by the local priests. [Footnote in the original; despatch not printed.]

⁶⁹ Not printed.

carrying on activities in accordance with the guarantees extended by the Constitution of Colombia and not in violation of the laws of the country, my Government would expect me to support their requests for protection from violence with which they may have been threatened by individuals of other religious faiths.

At the same time I recalled to the Archbishop that as I had on several past occasions explained to him and to the Nuncio, I have warned my fellow citizens who are carrying on missionary activities in Colombia to comport themselves with the greatest tact and correctness and to respect the religion and traditions of the country of which they are privileged to enjoy the hospitality. Such a course of conduct, I stated, was in my opinion obligatory on them not only as good Christians but as citizens of a nation which desires to maintain the most friendly and close relations with the sister Republic of Colombia.

The Archbishop received me cordially, but while he freely admitted the existence of Constitutional guarantees and the entire legality of the activities of the Protestant missionaries, he nevertheless persisted in his view that these activities were disruptive of the religious life of Colombia and should be restricted if possible. He seemed particularly to resent the Protestant missionaries' alleged practice of hiring ignorant and simple "indígenos" to carry on the work of proselytizing among their fellows.

[The remainder of this despatch is concerned with the attitude and views of several parties more or less interested in the conflict.]

Respectfully yours,

ARTHUR BLISS LANE

321.1163/16

The Secretary of State to the Ambassador in Colombia (Lane)

No. 1518

WASHINGTON, August 19, 1943.

SIR: Reference is made to your strictly confidential despatch no. 2192 of May 29, 1943⁷² and previous despatches concerning attacks made on Protestant missionaries in Colombia.

The Department has reviewed the developments as reported in the despatches under reference and approves the action taken on this question by the Embassy.

Very truly yours,

For the Secretary of State:
A. A. BERLE, JR.

⁷² Not printed. In this despatch Ambassador Lane reported that he had discussed the situation with President López and with Foreign Minister Gabriel Turbay. The two Colombian officials assured the Ambassador that the Government would see to it that the missionaries received protection, but the President stated that anything which might be done discreetly to prevent further numbers of missionaries from coming to Colombia would be advisable (321.1163/16).

321.1163/21

The Ambassador in Colombia (Lane) to the Secretary of State

No. 2730

BOGOTÁ, September 13, 1943.

[Received September 24.]

SIR: With reference to the Department's confidential instruction no. 1518 of August 19, 1943, I have the honor to report that according to information received by the American Consul in Cali,⁷³ the Catholic priest of Silvia, Department of Cauca, recently delivered a rabidly anti-American speech which, beginning with a vigorous denunciation of American missionaries, developed into a general attack on the United States and its policies.

The Vice Consul at Bucaramanga,⁷⁴ Department of Norte de Santander, reports that the Bucaramanga newspaper, *El Frente*, has published a series of articles during the past month attacking Protestant missionaries and alleging that these missionaries are being sent to South America in order to facilitate the absorption of the Latin-American countries by the United States. The Vice Consul reports that on August 14 a demonstration against Protestant missions was organized in Pamplona by a Father Mendoza, assistant to the Bishop. The Vice Consul also reports that on September 3 there took place at Bucaramanga a noisy demonstration against the activities of the Protestant missionaries on the part of local schoolboys who marched up and down the center of the town shouting "Vivas" and "Abajos," and stoned several Protestant meeting places and the Masonic Temple. The two Conservative newspapers of Bucaramanga, *El Deber* and *El Frente*, are reported to have described the demonstration on the following day as a righteous manifestation on the part of the city's youth, carried out in perfect order. According to the newspapers the marchers were inspiringly addressed by Fathers Sorzano and Jaimes. A similar description of the demonstration published in the Bogotá newspaper, *El Siglo*, on September 8th is enclosed.⁷⁵

It appears that the immediate cause of the demonstration was an alleged reference by Mr. Baxter,⁷⁶ an American missionary, to the Pope as the Beast of the Apocalypse. The City Council of Bucaramanga passed a resolution praising the Pope and protesting against the calumnies and disrespectful statements made against him by a "certain foreign lecturer." Following the demonstration, the ladies of Bucaramanga, headed by the wife of the Governor of the Province, addressed telegrams to the Papal Nuncio and the President of the

⁷³ Howard A. Bowman.

⁷⁴ J. Brock Havron.

⁷⁵ Not reprinted.

⁷⁶ William E. Baxter, Seventh Day Adventist representative in Bogotá.

Republic protesting against the propaganda of "aggressive Protestant sects which are imperilling American cordiality".

Mr. Baxter denies having said anything against the Pope. In response to an inquiry from the Vice Consul as to whether the matter should be taken up with the Colombian authorities, the Embassy advised the Vice Consul not to intervene with the Colombian authorities at this stage, but suggested that if in the meantime he came into contact with Baxter he should urge upon him the necessity for the greatest tact and discretion in dealing with the Colombians. The Vice Consul reports that according to information received from American missionaries there are now twenty Protestant missionaries in the Department of Norte de Santander. Of these sixteen are American, two Canadian, and two Norwegian.

Respectfully yours,

ARTHUR BLISS LANE

321.1163/24

The Ambassador in Colombia (Lane) to the Secretary of State

No. 2799

BOGOTÁ, September 29, 1943.

[Received October 8.]

SIR: With reference to the Embassy's despatch no. 2730 of September 13, 1943, I have the honor to report that in the course of a conversation on September 27 with President López, he told me he had received a great number of telegrams in recent days protesting against Protestant missionary activities in Colombia, so many, in fact, that he had not yet been able to look through all of them. I told the President that I had recently discussed the growing wave of anti-Protestant demonstrations with Monsignor Brigard, Secretary General and Vicario Apostolico of the Bogotá diocese, and that he had admitted that agitation against missionaries had grown more serious of late but was inclined to disclaim responsibility on the part of the Catholic hierarchy and to claim that the agitation came primarily from political sources. I told the President that I felt that the Catholic clergy in Colombia should show more patience and understanding with regard to the activities of Protestant missionaries, and should take into consideration that although the United States had always been predominantly Protestant, Catholic activities were in no way interfered with there, and the number of Catholics had steadily increased until it was estimated that nearly one-third of the population was now Catholic. The President assented but made no suggestions as to any practical measures which might be taken to improve the situation in Colombia. He indicated, however, that his Government was deter-

mined to afford the missionaries all necessary protection as long as they kept within the limits of Colombian law.

I enclose for the information of the Department, a copy of a circular entitled "La Libertad de Cultos",⁷⁷ which is being circulated by the Catholics in Bucaramanga.

Respectfully yours,

ARTHUR BLISS LANE

310.1163/77 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, November 9, 1943—noon.

[Received 6:01 p. m.]

2012. Some days ago the Minister of Gobierno⁷⁸ expressed desire to discuss with me unfavorable situation affecting Protestant missionaries in Colombia and especially in Bucaramanga. As the Department is aware there have been recent incidents in Bucaramanga and Manizales in which Catholic populace has apparently been incited by clergy to take physical action against missionaries.

Today I orally informed Lleras Camargo that I am concerned regarding situation but that I fear there is nothing further I could do with Archbishop Perdomo as I had been informed that due to differences within the hierarchy itself he would probably not be able to take action on any request from me. I said however that I intended to visit Bucaramanga next week, this being the only Consulate in Colombia which I had not yet visited and that I would take advantage of my trip to counsel calm, tact and tolerance to the Protestant missionaries. I told Lleras that before making the trip I wished to ascertain from him whether my visit might not provoke further difficulties.

Lleras said that he would consult the Archbishop telling him of my offer to attempt to calm the situation in Bucaramanga and said that he would advise the Archbishop that there would be a corresponding obligation on the part of the ecclesiastical authorities to give instructions to the local priests to refrain from inciting their parishes against the American missionaries.

Lleras observed that the greater part of the trouble is due to desire of local politicians to embarrass the Government with the United States Government and that in the past there had been no difficulties as a result of American missionary activities in Colombia.

LANE

⁷⁷ Not reprinted.

⁷⁸ Alberto Lleras Camargo.

310.1163/79 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, November 13, 1943—11 a. m.

[Received 2:27 p. m.]

2039. Minister of Gobierno telephoned me this morning that he had consulted Archbishop Perdomo who had agreed to instruct the corresponding bishop regarding necessity of putting a stop to attacks on American missionaries. Lleras' intercession being kept strictly confidential so as to avoid any possible political repercussions. It is planned therefore that I shall proceed to Bucaramanga the end of next week ostensibly to visit the Consulate and meet the American colony in Bucaramanga but I shall take advantage of my stay to impress upon American missionaries the necessity of their not antagonizing the local population. The foregoing is in connection with my 2012⁷⁹ and is strictly confidential.

LANE

310.1163/83 : Airgram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, November 18, 1943—2 p. m.

[Received November 27—1 p. m.]

A-944. Reference my telegram no. 2039, November 13, 11 a. m. As a matter of courtesy, I called on the Apostolic Nuncio today to apprise him of the reasons for my visit to Bucaramanga.

Monsignor Serena said that he was very glad to know that I was making the trip, especially as he is under great pressure from what he termed the rabid element in the Department of Santander. He said that this element is insisting that he should make representations to the Colombian Government against the activities of Protestant missionaries in that Department on the ground that such Protestant activities violate Article I of the Concordat promulgated by Pope Leo XIII on December 31, 1887. The Nuncio referred me to this Article which provides that the Roman Catholic religion is the religion of Colombia and that the Colombian Government is obligated to protect and defend it. Monsignor Serena added that this Article was not amended by the supplementary Concordat of 1942 and that it is part of the enacted legislation of Colombia as Law 35 of 1888.

The Nuncio said that he would not make representations to the Colombian Government in this regard. He expressed agreement with my point of view that as long as the American missionaries do not violate the laws of the country the Colombian Government is obligated

⁷⁹ *Supra*.

to protect them from physical violence. He expressed doubt as to the efficacy of any instructions sent by the Archbishop to the clergy in Santander as he realizes from his own experience in the case of the Concordat that the clergy in that Department have no respect for authority.

LANE

310.1163/91

The Ambassador in Colombia (Lane) to the Secretary of State

No. 3090

BOGOTÁ, December 13, 1943.

[Received December 22.]

SIR: I have the honor to report that in accordance with the intention outlined in my telegram no. 2039, November 13, 11 a. m. and my airgram no. 944, November 18, 2 p. m., I visited Bucaramanga, the capital of the Department of Santander, on November 19 and 20. I have requested the Vice Consul in charge, Mr. J. Brock Havron, to report on the activities which took place during my stay in Bucaramanga and hence I shall confine myself to a discussion of the religious situation which, I may add, I found to be even more serious than I had originally suspected.

I found the Governor of the Department, Dr. Arturo Santos, a distant relation of ex-President Eduardo Santos, to be an understanding, tolerant and intelligent official. As will be described below, he attributes the attacks on the Protestant missionaries to be chiefly due to the desire on the part of Conservative politicians to stir up trouble between the Governments of Colombia and the United States. As will be noted from my conversations with the Governor, there is likewise a bitter personal feeling between him and the Bishop of Pamplona, the ecclesiastical official in authority in the diocese in which Bucaramanga lies. This hostility dates back to the Governor's youth when he was a student in the school of which the Bishop was then the principal. Both President López and President Echandía⁸⁰ informed me on November 22 that they consider the local political situation to be the principal cause for the friction existing.

With a view to creating better feeling on the part of the Roman Catholic hierarchy in Bucaramanga, I called on the vicar of the parish in Bucaramanga immediately following my call on the Governor. I informed the press of my calls on the Governor and the vicar, stating that I called on the Governor as the head of the local government of Bucaramanga and that I called on the vicar as the representative of the religion of Colombia. I found the vicar to be a reasonable, well-

⁸⁰ Darío Echandía was Acting President while President López was in the United States from November 19, 1943, to May 16, 1944.

intentioned priest who showed no bitterness towards the missionaries. I describe hereunder his remarks which indicate that his attitude should not be considered as being responsible for the existing friction. As will be noted from my conversation with the Governor, those chiefly responsible for existing trouble are the Bishop of Pamplona, Padre Mejía Moncayo, S. J., the principal of the school of San Pedro Claver, and the Franciscan priests who, according to the Governor, are controlled by the Spanish Falange.

I held an extended conversation with the missionaries themselves on November 20 pointing out that as American citizens they have an obligation to their Government to create no difficulties in our relations with Colombia. I made it clear as I did to the Governor and to the vicar of Bucaramanga that I have two principal duties in Colombia: (1) the maintenance and development of friendly relations with the Government and people of Colombia, and (2) the protection of American citizens and interests in Colombia, regardless of creed. I pointed out that when these two duties conflict I am confronted with a very delicate situation, and for this reason it is my hope that neither the Colombian ecclesiastical authorities nor the American citizens involved should create for the Embassy a situation which might seriously affect the friendly relations which now exist between the United States and Colombia. Unfortunately, some missionaries, unauthorized by their superiors or by the missionary group as a whole, have committed acts which in my opinion have been in inexcusably bad taste and have naturally resulted in bitter irritation on the part of the Roman Catholic Church authorities. For instance, a pamphlet has been circulated entitled "Supuesta Visita de San Pablo a Bogotá" which is a sarcastic attack on Catholicism. This pamphlet, a copy of which is enclosed, was sent by the Bishop of Pamplona to the Governor of Santander and was handed to me by the Governor for my information. The attack on the morals of the Roman Catholic clergy on pages 10 and 11 is especially to be deplored. I informed the missionaries that such an attack would undoubtedly not be permitted in the United States on the ground of the indecent nature of the charges, and in my opinion there could be no justification for the publication. The missionaries requested me to inform whomever might be interested that they deplore this publication, and in fact Dr. Allen,⁸¹ the head of the Presbyterian Mission Board in Bucaramanga, said that he would ask Dr. Seel in Bogotá to take steps to destroy all outstanding copies of the pamphlet.

I made an investigation regarding the report that Mr. William E. Baxter of the Seventh Day Adventists had rifles in his possession. Mr. Baxter said that the report in question was untrue but that there

⁸¹ R. M. Allen.

was justification for the report in that one of the Colombian members of his mission, after having been attacked by a Catholic group, had been given two 22-caliber rifles by a Colombian citizen for his protection. Mr. Baxter admitted that he, Baxter, had purchased ammunition for these rifles but that the rifles themselves had never been in Mr. Baxter's home. He said that as soon as the trouble had died down the rifles had been removed from the home of his Colombian collaborator and that they would not be returned to his house. I pointed out to him the very serious trouble which might arise should it ever be charged that the missionaries were armed and I said to the group as a whole that the activities of all of them might be terminated if any indiscretion, such as the carrying of arms, should become publicly known.

The vicar of the parish of Bucaramanga, the Reverend Jesús Jaimes, said to me that he fully appreciated my position as being obligated to protect all American interests and citizens in Colombia regardless of creed. He likewise admitted that the American Protestant missionaries are guaranteed under the Colombian Constitution freedom of worship, according to their conscience, and liberty to practise their profession, provided that they do so within the law of Colombia. I deplored to the vicar the attacks which unauthorized persons had made against the Roman Catholic Church in Colombia and I expressed the opinion that there are bound to be undisciplined Protestant missionaries who, because of overzealousness, act outside of the instructions issued by their principals in the United States, just as there are unauthorized acts committed by members of the Roman Catholic hierarchy in Colombia, which undoubtedly would not be approved by their superiors in Bogotá. I said that I especially had in mind action on the part of Catholic priests in Colombia in inciting their parishioners to take physical action against American citizens. I emphasized that as American Ambassador I could not tolerate my co-nationals being subjected to injury because of lawless attacks on their persons and that if such attacks persisted I should naturally be compelled to request adequate protection from the Colombian Government. Father Jaimes indicated that he fully appreciated my position and said that he too deplored physical attacks against human beings no matter what their nationality or religion, and added that such action is un-Christian and as such could not be condoned by the Church.

[Here follows a summary of conversations with Governor Santos regarding certain individuals said to have been responsible for the intensity of feeling in Bucaramanga against American Protestant missionaries.]

Respectfully yours,

ARTHUR BLISS LANE

310.1163/89 : Telegram

The Ambassador in Colombia (Lane) to the Secretary of State

BOGOTÁ, December 15, 1943—6 p. m.

[Received 10:20 p. m.]

2305. My airgrams 1011 and 1020, December 13 ⁸² and strictly confidential despatch 3090 of the same date regarding missionary situation in Colombia.

Ex-President Santos informs me that in his opinion chief reason for hostility on the part of Roman Catholic ecclesiastical authorities towards American Protestant missionaries in Colombia is economic. He said that except in certain districts, such as some sectors of Bogotá and Medellín, the Church in Colombia is surprisingly poor and that many of the priests have hardly sufficient funds with which to live. He said that a parish priest in the outlying districts of Colombia generally is paid for funeral, marriage and baptismal services in small quantities of foodstuffs barely sufficient to sustain him. Actions of American missionaries having come to Colombia with private bank accounts and liberal allowances for living expenses has created bitter animosity on the part of the Catholic clergy.

Speaking of the lack of tact of certain of the American missionaries Santos [said] "fanatics never have tact whether they be Catholics, Protestants, or Mussulmen".

LANB

⁸² Neither printed.

COSTA RICA

SUPPLEMENTARY AGREEMENT BETWEEN THE UNITED STATES AND COSTA RICA REGARDING COOPERATIVE RUBBER INVESTIGATIONS IN COSTA RICA, AND AGREEMENT CONTINUING IN FORCE THE ORIGINAL AGREEMENT AS AMENDED

[For text of original agreement for cooperative rubber investigations in Costa Rica effected by exchange of notes signed at San José April 19 and June 16, 1941, see Department of State Executive Agreement Series No. 222, or 55 Stat. (pt. 2) 1368. For text of supplementary agreement effected by exchange of notes signed at San José April 3, 1943, see Executive Agreement Series No. 318, or 57 Stat. (pt. 2) 944. For agreement continuing in force the original agreement as amended by the supplementary agreement, effected by exchange of notes signed at San José June 21 and July 1, 1943, see Executive Agreement Series No. 335, or 57 Stat. (pt. 2) 1048.]

DISCUSSION CONCERNING GASOLINE IMPORTS OUTSIDE THE PETROLEUM POOL QUOTA

818.6363/250 : Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, March 10, 1943—5 p. m.

[Received 9:45 p. m.]

208. Refer Legation's strictly confidential despatch 1431 [1441], February 25,¹ reporting negotiations by Señor Madrigal, President of the Banco de Brazil Nacional,² for the importation of 50,000 gallons of gasoline from Mexico.³

I have today been asked by Mr. Jorge Escalante, head of the Costa Rican Gasoline Rationing Board, if such importation should be made whether there will be a corresponding reduction in the regular quota allotted for delivery to Costa Rica by the Latin American Supply Committee.⁴ It is understood that the importation in question would be made in bulk and would be merely the first of regular shipments.

¹ Not printed.

² Actually Ramón Madrigal Antillon was president of the Banco Nacional de Costa Rica.

³ For correspondence concerning petroleum exports from Mexico, see letter of August 31 from the Ambassador in Mexico, and instruction No. 4606, October 23, to the Ambassador in Mexico, pp. 463 and 465, respectively.

⁴ The Petroleum Supply Committee for Latin America, with headquarters in New York.

Since Señor Madrigal is now in Mexico arranging this deal, it is urgent that I be informed immediately whether all petroleum importations outside the pool will be deducted from pool deliveries.

SCOTTEN

818.6363/250 : Telegram

The Acting Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, March 13, 1943—7 p. m.

206. Your telegram 208, March 10. You should make perfectly clear to appropriate government officials that the pooling arrangement under which the American republics are receiving imported oil supplies is fundamentally and essentially a joint agreement under which all oil supplies and supplying facilities are added together and divided on a basis of equality among the participants. According to this definition there can be no such thing as "oil imports outside the pool." Department is strongly in favor of full development of all possibilities of increasing oil supplies from all available sources including Mexico but principle stated above will be followed in all cases.

WELLES

818.6363/258 : Airgram

The Chargé in Costa Rica (Reed) to the Secretary of State

SAN JOSÉ, May 8, 1943—10 a. m.

[Received May 14—2 p. m.]

A-625. Refer Legation's telegram No. 208, March 10, 1943, 5 p. m., Department's telegram No. 206, March 13, 7 p. m., and Legation's despatches 1570, March 26; 1641, April 7; and 1733, April 28.⁵

The Costa Rican Government has telegraphed Ambassador Escalante⁶ at Washington to make every effort to obtain a modification of the Department's ruling that independent imports of gasoline from Mexico will be deducted from the quota delivered by the pool. This action follows violent attacks by Madrigal in the press on the Gasoline Rationing Board in which Madrigal claimed that his deal with Mexico has the full support of the Government and that it is absurd to think that a friendly country like the United States would prevent Costa Rica from exercising its right to relieve the quota gasoline shortage by obtaining additional supplies which in no way affect pool operations.

⁵ Despatches not printed.

⁶ Carlos M. Escalante; he had been Minister of Finance prior to his appointment as Ambassador April 28, 1943.

The Gasoline Rationing Board informs the Legation that it has been assured by President Calderón Guardia that arrangements will be made to have the gasoline already imported by Madrigal considered outside of the Costa Rican quota.

The Legation informed the responsible Costa Rican authorities of the Department's ruling that there can be no petroleum imports outside of the pool and considers it important that the Department maintain its position.

REED

818.6363/257 : Airgram

The Secretary of State to the Chargé in Costa Rica (Reed)

WASHINGTON, May 11, 1943—6:30 p. m.

A-461. Our telegram no. 206, March 13, and your despatch no. 1733 of April 28, 1943.⁷

The Costa Rican Ambassador here inquired yesterday concerning the bearing of Costa Rican imports of Mexican gasoline on the petroleum supply pool. The statement given the Ambassador was essentially the same as that which you were instructed, in the telegram under reference, to give to the Costa Rican authorities. We endeavored to make it perfectly clear to the Ambassador that, while we favored the development of all sources of supplies, if Costa Rica imports gasoline from Mexico tanker borne supplies furnished by the pool will be reduced in an equivalent amount. We explained to the Ambassador that the pool principles, including this one, are applied uniformly in the case of all participating countries. The Ambassador indicated his understanding and stated that he would inform his Government accordingly.

Regarding the contents of your despatch under reference, which were not discussed specifically with Ambassador Escalante, the assignment, as requested by the President of Costa Rica, of the gasoline already imported from Mexico to the Costa Rican Government as an extra allowance, would not solve the question in accordance with the above-mentioned principle unless it is understood that an equivalent amount will not be delivered by pool tankers and the Costa Rican pool committee advises the Supply Committee for Latin America to make the appropriate adjustment in deliveries. Please clarify this with the appropriate Costa Rican officials and the pool committee and report to the Department.

HULL

⁷ Latter not printed.

818.6363/258 : Airgram

The Secretary of State to the Chargé in Costa Rica (Reed)

WASHINGTON, May 18, 1943—6:30 p. m.

A-474. Legation's A-625, May 8 and Department's A-461, May 11. With reference to Madrigal's statement that the United States would not prevent Costa Rica "from exercising its right to relieve the quota gasoline shortage by obtaining additional supplies which in no way affect pool operations", you should make it perfectly clear to the Costa Rican authorities that the pooling arrangement is not for the purpose of restricting supplies but is designed to make equitable distribution on the basis of restricted tanker facilities. Consequently, on the one hand the development by a country of additional sources of supply is favored. On the other hand, equitable distribution must be maintained and there must be no discrimination as between participating countries in the application of pool principles. This fact, in conjunction with the restricted tanker situation, makes it imperative that tanker borne supplies to Costa Rica be reduced in an amount equivalent to any imports from Mexico and the badly needed tanker space saved thereby utilized elsewhere. This same course would be followed in the case of any other country in like circumstances.

The Department will maintain its position in this matter.⁹

HULL

FORMULATION OF A MEMORANDUM OF UNDERSTANDING PROVIDING FOR THE ESTABLISHMENT OF A CINCHONA PLANTATION IN COSTA RICA

810.6173/29

The Secretary of State to the Minister in Costa Rica (Scotten)

No. 627

WASHINGTON, January 23, 1943.

SIR: The Board of Economic Warfare¹⁰ is anxious to establish through Defense Supplies Corporation¹¹ in some Latin American country a plantation for the cultivation and development of cinchona trees from which quinine and other anti-malarial products may be derived. Prior to the present war, over 95 percent of the world's quinine came from the Netherlands East Indies where cinchona trees were scientifically cultivated. Trees known as "Cinchona ledgeriana" were developed there which produced a very high quinine con-

⁹ Despatch No. 347, August 4, from Costa Rica reported information to the effect that the Costa Rican authorities had taken action to stop petroleum importation from Mexico and that the matter would appear to be definitely closed (818.6363/274).

¹⁰ An emergency war agency of the United States Government.

¹¹ A United States Government agency within the Department of Commerce.

tent. The more common "*Cinchona succirubra*" of South America produces bark with a much lower quinine content. At present the sole source of quinine for the United States is the bark of wild cinchona trees of a few Latin American countries, and it is essential to the war effort that new sources of quinine be developed.

Colonel Fischer¹² of the United States Army, who has had more than twenty years experience with cinchona plantations in the Philippines and the East Indies, escaped from Bataan with over 2,000,000 cinchona seeds of the *ledgeriana* variety. These seeds are now being cared for by the United States Department of Agriculture.

Defense Supplies Corporation plans to establish in Latin America a plantation upon which the seeds brought by Colonel Fischer from the Philippines may be grown and various experiments conducted with reference to cinchona. It is planned that Colonel Fischer will be placed in charge of the plantation and will have a number of technical experts to assist him.

Defense Supplies Corporation would like to establish and operate such a plantation in Costa Rica. In order to assure room for expansion and development of the project it will require 10,000 acres of land, preferably cleared or semi-cleared.

The enclosed Memorandum of Understanding should be submitted to the Costa Rican Government as soon as possible. You will note that the Costa Rican Government is asked to make the necessary lands available to Defense Supplies Corporation by lease, concession or otherwise for a period of twenty-five years. Naturally we would much prefer that the Republic of Costa Rica would, as its contribution to this project, grant a concession of government lands without charge to Defense Supplies Corporation. If this is not possible, Defense Supplies Corporation would be willing to lease or purchase the necessary lands. The program contemplates the surrender of the plantation and the buildings thereon within twenty-five years to the Republic of Costa Rica, and a concession to Government-owned lands would therefore seem most appropriate.

The interest of Supplies Corporation is primarily to assure the United Nations a reserve supply of quinine in the event the present war is a prolonged one. Consequently the measure should be presented to the Costa Rican Government as a mutual war project. Of secondary importance is the fact that the proposed plantation will probably become the nucleus of a permanent cinchona bark industry in the Western Hemisphere. In this connection it should be observed that Defense Supplies Corporation will make available to the Republic of Costa Rica technical and scientific information acquired by it in the operation of the plantation.

¹² Col. Arthur F. Fischer.

The project will be conducted so as to comply in all respects with the applicable laws of Costa Rica. Costa Rica is asked only to make necessary lands available, not to impose taxes, fees, charges, etc., which would hinder the full development of the plantation, and not to restrict the exportation of seeds, stems, roots, or bark of cinchona trees to friendly nations for a twenty-five year period. If any question is raised concerning this latter provision, you may state that its intention is only to assure access to a source of cinchona ledgeriana seed by the United States and other nations, particularly those of the Western Hemisphere.

It is necessary for the preservation of the seeds that they be transplanted as quickly as possible. If the enclosed Memorandum is approved in the near future, the Board of Economic Warfare will immediately send representatives to Costa Rica to search for suitable lands and it is expected that the project could be put under way within a few months. Inasmuch as the Board of Economic Warfare and Defense Supplies Corporation would like to proceed with the project as rapidly as possible, you should ascertain and advise us whether any objection might be had to sending a survey party to Costa Rica prior to execution of the agreement.

Mr. R. V. Dewey, special representative of the Board of Economic Warfare and Defense Supplies Corporation, is informed of the proposal and should be able to give you valuable assistance in the presentation of this Memorandum and should be asked to participate with you in discussions concerning it.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

[Enclosure]

MEMORANDUM OF UNDERSTANDING

Between the Republic of Costa Rica and Defense Supplies Corporation, an Agency of the United States, concerning the Establishment of a Plantation for the Planting, Cultivation and Harvesting of Cinchona Trees in Costa Rica

The parties intend this agreement to be a concrete implementation of the Resolutions of the Final Act of the Third Meeting of Ministers of Foreign Affairs of the American Republics and a means of furthering the effectiveness of Resolution II of the Rio de Janeiro Conference.¹³ The parties hereto have designed this agreement in

¹³ For text of the Final Act of the Conference held January 15-28, 1942, see Department of State *Bulletin*, February 7, 1942, p. 117. Resolution II (*ibid.*, p. 119) concerned the economic mobilization of the American Republics to supply strategic and basic materials necessary to the defense of the Hemisphere.

furtherance of their mutual war effort and in recognition of the desirability of establishing a permanent and independent cinchona bark industry in Costa Rica.

1. The Republic of Costa Rica will make available to Defense Supplies Corporation by lease, concession, or otherwise, for a period of twenty-five years, approximately 10,000 acres of land suitable for the planting of cinchona trees. The Government of Costa Rica will exert its best efforts to cooperate with representatives of Defense Supplies Corporation in selecting such land and, to the extent possible, will make available such lands as may be recommended to it by representatives of Defense Supplies Corporation. In consideration of the Republic of Costa Rica making such lands available, Defense Supplies Corporation will, within twenty-five years from the date of this agreement, surrender such lands, including all buildings erected thereon and cinchona trees growing thereon, to the Republic of Costa Rica. Defense Supplies Corporation, however, shall have the privilege to surrender such lands, including the buildings and cinchona trees thereon, at any time within such twenty-five year period.

2. Defense Supplies Corporation is hereby granted the right to establish a cinchona plantation upon such lands, and the exclusive right to operate, control and manage such plantation and the harvesting of cinchona trees thereon. Defense Supplies Corporation shall have the right to clear the lands, to erect buildings, laboratories, and other facilities thereon and to do all things upon such lands necessary or desirable for the proper operation of a cinchona plantation, the harvesting of cinchona bark and the extraction of quinine and other anti-malarial products from such bark. Defense Supplies Corporation shall be free to dispose of its personal property, machinery and equipment used in connection with the plantation and the products produced on the plantation. The project shall be conducted in all respects in accordance with the applicable laws of the Republic of Costa Rica.

3. Defense Supplies Corporation agrees to make available to the Republic of Costa Rica technical and scientific information acquired by it in connection with the operation of the plantation.

4. Defense Supplies Corporation will pay to its workers at least the wages paid for similar agricultural work in Costa Rica; will provide reasonably adequate safeguards against accidents; will furnish its employees with adequate and suitable shelter, water, sanitation, medical treatment and protection against diseases upon a fair and equitable basis; and, if necessary, will assure such laborers and employees an adequate food supply at a reasonable cost.

5. The Republic of Costa Rica agrees that, during the twenty-five years following execution of this agreement, it will not restrict in any form the exportation to friendly nations of seeds, stems, roots or bark of cinchona trees or anti-malarial products produced from cinchona trees grown on the plantation herein contemplated.

6. The Republic of Costa Rica looks with favor upon the development of an established cinchona bark plantation industry in Costa Rica and to this end agrees that during the term of this agreement, it will not impose new, or increase existing, taxes, fees, imposts, excises or other charges upon cinchona bark, trees or products thereof or impose restrictions which might hinder the effective development of such a cinchona bark industry.

7. The parties hereto agree to cooperate and exert their best efforts to establish a successful cinchona plantation industry in Costa Rica and to this end will consult with one another from time to time for purposes of adopting necessary or desirable measures designed to accomplish this objective.

DEFENSE SUPPLIES CORPORATION
By _____

REPUBLIC OF COSTA RICA
By _____

JANUARY 14, 1943.

811.20 Defense (M)/11927 : Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, February 8, 1943—noon.
[Received 3:40 p. m.]

99. Referring to my telegram No. 94, February 5, 11 a. m.¹⁴ I am in receipt of a letter¹⁵ from the Minister of Agriculture¹⁶ stating that the President¹⁷ is in principle in complete accord with the Memorandum of Understanding. The Minister adds that his Ministry will take great pleasure in cooperating in every way with the survey party which he trusts will come as soon as possible.

The Minister and I went over the Memorandum of Understanding this morning and he suggested certain minor changes which I will submit by airgram for the Department's consideration.

SCOTTEN

¹⁴ Not printed.

¹⁵ Not found in Department files.

¹⁶ Mariano R. Montealegre.

¹⁷ Rafael Angel Calderón Guardia.

811.20 Defense (M) / 12009 : Airgram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, February 9, 1943—10:11 a. m.
[Received February 11—5 p. m.]

A-411. Referring to my telegram No. 99, February 8, 12 noon, the Minister¹⁸ points out that in article 2 the statement "shall be free to dispose of its personal property, machinery and equipment" if interpreted literally might mean that at the end of 25 years the Costa Rican Government would not receive the plantation in running order. He hopes that a change can be made to ensure that Costa Rica will receive the machinery and equipment at the end of 25 years. He requests a definition of "personal property".

At the end of article 5 the Minister would appreciate the addition of something along the following lines: "Costa Rica reserves the right, however, to withhold from exportation sufficient quantities of anti-malarial products to supply its normal domestic consumption".

SCOTTEN

811.20 Defense (M) / 12009 : Telegram

The Acting Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, February 26, 1943—9 p. m.

153. Further reference your A-411, February 9 and cablegram 128, February 18, 4 p. m.¹⁹ You and Mr. Dewey are authorized to make the following amendments in the Memorandum of Understanding concerning the cinchona plantation to be established in Costa Rica:

Insert at the end of the penultimate sentence in paragraph 2 the following: "provided, however, that Defense Supplies Corporation shall leave upon the plantation at the time of its surrender pursuant to paragraph 1 hereof, so much of the equipment, machinery and tools then on such plantation as shall be necessary for the reasonable and proper operation of such plantation."

Inasmuch as Defense Supplies Corporation is at liberty to surrender the lands granted it at any time within 25 years, it cannot guarantee to place the plantation in running order prior to such surrender. However, the above amendment makes it clear that necessary equipment on the plantation at the time of surrender will not be removed so as to prevent its continued reasonable operation.

Article 5 may be amended as follows: "Costa Rica reserves the right, however, to withhold from exportation sufficient quantities of anti-

¹⁸ Minister of Agriculture.

¹⁹ Latter not printed.

malarial products to supply its normal antimalarial requirements, which are presently estimated at ounces of quinine sulphate, USP ²⁰ XI, or its equivalent per annum."

It is highly desirable that Defense Supplies Corporation should be privileged to import necessary tools and equipment for use on the plantation free of various import duties, taxes, etc. If you and Mr. Dewey believe that this can be most satisfactorily done through an exchange of notes, such notes should be exchanged. Otherwise it is felt here that the following amendment should be inserted as paragraph 7 of the Memorandum: "Defense Supplies Corporation shall be privileged to import into Costa Rica any and all equipment, machinery, tools, materials, or other property for direct use in connection with the cinchona plantation to be established by it, free of any and all import duties, taxes, fees or other charges levied because of such importation."

The last paragraph should be renumbered as "8".

BERLE

811.20 Defense (M)/12428 : Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, March 12, 1943—noon.
[Received 6 : 55 p. m.]

214. Referring to the Department's No. 153 of February 26, 9 p. m. The Memorandum of Understanding concerning the cinchona plantation to be established in Costa Rica was signed this morning by myself acting for the Defense Supplies Corporation, and the Minister of Agriculture acting for the Costa Rican Government.

All the amendments embodied in the Department's telegram under reference are included in the Memorandum of Understanding as signed.²¹

SCOTTEN

COOPERATIVE EFFORTS TO CONTROL FINANCIAL TRANSACTIONS INVOLVING THE AXIS

811.51/5964 : Airgram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, March 13, 1943—11 : 30 a. m.
[Received March 19—5 p. m.]

A-507. Reference the Department's A-122, October 8, 7 p. m. and

²⁰ United States Pharmacopoeia.

²¹ Certified copies of the English and Spanish texts of the signed Memorandum of Understanding were transmitted to the Department by the Minister in Costa Rica in his despatch No. 1526 of March 13, 1943 (not printed).

my A-235, November 21, 10:35 a. m.²² The Costa Rican government has finally agreed to block the Italian government funds held by the Spanish Minister here,²³ and presently amounting to \$141,895.25. The dollar funds will be converted into colones, and the colones will be kept in a blocked account under the control and supervision of the Junta de Custodia.²⁴ No withdrawals from such account will be made in the future without previous application to, and approval by, the Junta. The Costa Rican government, however, has told the Spanish Minister that upon proper application, monthly withdrawals of small amounts, not exceeding 250 or 300 colones *in toto*, will probably be authorized for the subsistence expenses of some Italian subjects who reside here and who are completely without other means of subsistence. This, of course, is not strictly in keeping with the provisions of Resolution I of the Inter-American Conference on Systems of Economic and Financial Control,²⁵ and this fact has been brought to the attention of the Minister of Finance,²⁶ who has explained that failure to permit such payments will impose upon the Costa Rican government the burden of providing the indigent Italians with subsistence funds, since it has been indicated by the Spanish Minister that his government would not provide the funds from other sources. The Minister of Finance has stated, however, that such payments will be kept to a bare minimum, and that each case will be decided on its merits. In view of the Costa Rican government's previous reluctance to block these funds, since they were held in the name of the Spanish Minister and there was no documentary proof of their Italian ownership, the present procedure can be regarded as substantially satisfactory from our viewpoint, in spite of the divergence from the procedure recommended in the Washington Conference. It is believed, further, that now that the ice has been broken in this regard, it may be easier in the future to secure a more strict adherence to the recommended procedure. In this connection, it may be noted that the Costa Rican government has no funds in Italy, so that it would be impossible to secure reciprocal treatment for the payment of subsistence expenses of Costa Rican citizens there.

In accordance with the procedure outlined in the Department's airgram A-122 of October 8, 1942, it is now desired to know whether the dollar funds in question may be remitted to the United States by the Banco Nacional and credited to its account there. In this regard, it should be borne in mind that one of the strongest arguments that

²² Neither printed.

²³ Angel de la Mora y Arenas.

²⁴ Costa Rican Alien Property Custodian Board.

²⁵ Held in Washington, June 30-July 10, 1942; for a summary of the resolutions of this Conference, see *Foreign Relations*, 1942, vol. v, pp. 58 ff.

²⁶ Carlos M. Escalante.

was made to the Costa Rican government authorities to induce them to block these funds was that the dollars would not be accepted in the United States unless the equivalent in colones were blocked here. An early reply is requested.

SCOTTEN

740.00112A European War, 1939/27735: Airgram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, March 26, 1943—10 a. m.

[Received March 29—4 p. m.]

A-527. Reference Department's circular telegram March 11, 8 p. m.²⁷ The Junta de Custodia has under its control about 10,000 quintals of coffee produced on Proclaimed List properties. This coffee is "frozen" under an arrangement whereby only 15% of Proclaimed List coffee is permitted to be sold in the local market.

The Junta has now asked the Legation whether the importation of such coffee into the United States will be permitted in the event it is expropriated. The Legation's reaction to this proposal was extremely cool and it was pointed out to the Junta that as long as the coffee producing properties remained in the hands of the Proclaimed List nationals, the expropriation of the coffee for export to the United States would, in effect, be the same as if the *fincas* owner were exporting the coffee directly to the United States. The Junta then asked what would be the position of our Government with respect to the importation of this coffee if the properties on which it was produced were also expropriated. The Legation feels justified in informing the Junta that coffee produced by Proclaimed List farms *after* the expropriation of the farm and the elimination of the undesirable owner's interest can be exported freely to the United States, subject only to such restrictions (such as quota, etc.) as are applicable to all coffee importations into the United States.

As to coffee produced by Proclaimed List farms *prior* to their expropriation (such as the 10,000 quintals now frozen by the Junta) the Department's views are requested in order that the Junta may be advised accordingly. Actually, more than half of the coffee now "frozen" comes from properties which have been expropriated (Niehaus and Hubbe Hijos).

It is believed in the Legation that our Government would be justified in announcing to the local authorities that importation of coffee from expropriated Proclaimed List properties will be permitted (assuming, of course, that the interests of the undesirable owner in the

²⁷ Not printed.

property have been eliminated) regardless of whether the coffee was produced before or after the expropriation. This would have the double effect of encouraging the local expropriation program and of counteracting, to a certain extent, the frequently repeated complaint that our Government has discriminated against Costa Rica and in favor of Guatemala by permitting importation of Proclaimed List coffee from the latter.

No need is seen, however, to license importation of Proclaimed List coffee from Costa Rica, or even to permit importation of expropriated coffee in cases where the producing Proclaimed List farm has not also been expropriated.

The Department's early instructions are requested.

SCOTTEN

811.51/5964 : Airgram

The Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, March 27, 1943—2:30 p. m.

A-387. Your A-507, March 13. Treasury is prepared to release the \$141,895.25 in dollar currency held by the Spanish Minister on behalf of the Italian Government for credit to the account of the Banco Nacional under the conditions outlined in your airgram.

In connection with the proposed monthly withdrawals by the Spanish Minister, which as you pointed out is not in keeping with the provisions of Resolution I of the Washington Conference, you will undoubtedly realize that the mere fact that the Spanish Government would not provide funds for indigent Italian subjects in Costa Rica is not determinative of the point at issue. Under Resolution I the obligation to take care of such subjects could also be satisfied by the sending in of fresh funds by the Italian Government through the Spanish. We realize, however, that it may be impossible for the Costa Rican Government to insist upon such a procedure and we agree with you that it would be inadvisable to jeopardize the blocking of the \$141,895.25 in an endeavor to prevent a withdrawal of only 250 or 300 colones per month.

HULL

740.00112A European War, 1939/27735 : Airgram

The Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, April 3, 1943—6 p. m.

A-399. Your A-527, March 26. The Department and Treasury Department concur in Legation's view that coffee produced on expro-

propriated Proclaimed List properties *prior* to the date of expropriation may be imported into the United States (assuming, of course, that the interests of the undesirable owner in the property have been eliminated and any proceeds effectively blocked), and you are authorized so to notify the local authorities.

In view of Department's circular telegram of April 2, 1943,²⁸ the Legation is requested to expedite all necessary action to permit the importation of the ten thousand quintals of coffee referred to in the airgram under reference on the above basis.

In line with this, you are authorized to recommend issuance of a license to import the coffee upon receipt of assurances that the properties in question will be expropriated without waiting for the actual expropriation to occur.

You should inform the Department of all applications being filed for licenses to import this coffee and whether the coffee covered thereby can be imported upon the above basis. The importer filing the application for the license should be requested to notify the Department of the number thereof, in which event action will be taken with a view to its early issuance.

HULL

740.00112A European War 1939/29380 : Airgram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, April 20, 1943—9 a. m.

[Received April 23—noon.]

A-587. [Reference to a specific form of import license has been omitted here.]

While the control of Proclaimed List nationals in Costa Rica has been described to the Department in previous despatches and reports, the following is a brief summary thereof:

1. All Proclaimed List nationals are controlled, except Costa Rican born citizens of Costa Rican parents, of whom there are about 14 at present.
2. It now appears likely that all or most of the above will also be subjected to local controls within the very near future.
3. In the case of individuals, the controls are limited to the blocking of funds, with a monthly allowance not exceeding \$200 for living expenses.
4. In the case of firms or business establishments, one or more government "fiscales" or interventors are stationed on the premises with authority to supervise and administer the business, examine books, etc. Proclaimed List business establishments are not permitted to replenish

²⁸ Not printed.

stocks, but are allowed to sell to the public. Their funds are also blocked, but the Junta de Custodia (Alien Property Custodian Board) authorizes certain withdrawals for business operating expenses.

5. No Proclaimed List national, regardless of nationality, is permitted to import or export merchandise.

6. A substantial proportion of the blocked funds is compulsorily invested in Costa Rican Defense Bonds, which are also blocked.

7. The blocked funds are also subject to a graduated capital tax.

8. No controlled person is permitted to transfer property.

9. The controls are, on the whole, effective (as far as they go) although there are occasional "leaks".

Such licenses as have been granted by the Legation to persons or firms subject to the jurisdiction of the United States to engage in transactions with Proclaimed List nationals have been issued on the authority of the Department's general instructions on the subject and, with the exception of the period during which the Coordination Agreement was in existence,²⁹ have not been based on local control plans. The Legation has, however, considered the local controls as one of the factors to be weighed in all cases in reaching a decision, and to the degree that these controls have been gradually "tightened" the Legation has felt justified in pursuing a more liberal policy in the granting of licenses.

SCOTTEN

811.51/6127 : Airgram

*The Ambassador in Costa Rica (Des Portes)*³⁰ to the Secretary of State

SAN JOSÉ, June 1, 1943—10 a. m.

[Received June 4—10 a. m.]

A-678. Reference Department's A-387, March 27.

Following transmission of the Legation's A-507, March 13, and receipt of the Department's above airgram, when the matter appeared to have been fully settled, the negotiations broke down through the refusal of the Spanish Minister to permit the funds to be subjected to the control of the Junta de Custodia and through his insistence that the 250 or 300 colones per month originally suggested as permissible withdrawals were insufficient to meet the subsistence needs of the indigent Italian subjects in Costa Rica under his care.

²⁹ For a description of this agreement, which became effective in September 1941 and terminated March 31, 1942, see Department of State *Bulletin*, March 21, 1942, p. 240.

³⁰ The American Legation in Costa Rica was elevated to the status of Embassy on May 20, 1943, when Ambassador Fay Allen Des Portes, succeeding Minister Robert M. Scotten, presented his credentials to the Costa Rican Government.

While this Embassy has maintained the position that the Spanish Minister's views should not be permitted to affect or restrict the Costa Rican Government's sovereign right to deal with enemy property within its territory, the Costa Rican Government, many of whose officials maintain cordial and friendly personal relations with the Spanish Minister, has tended to accede to his wishes in the matter for the following main reasons:

1. The funds in question are deposited in the name of the Spanish Minister only, and not in his name as representative of Italian interests here. Thus, technically, it may be interpreted that the funds are either his own, or the property of the Spanish Government. This circumstance has been used by the Spanish Minister in order to bolster his bargaining position.

2. The Spanish Minister has indicated that to place "his" funds under the control of the Alien Property Custodian (Junta de Custodia) would stigmatize him as an enemy of Costa Rica and would be interpreted as an unfriendly act toward him and his government.

3. The Minister of Foreign Affairs is particularly desirous of maintaining cordial relations with the Spanish Government.

Representatives of this Embassy, in frequent discussions on the subject with the Minister of Finance (both former Minister Escalante and present Minister Tinoco³¹) have pointed to Costa Rica's commitments at the Washington Conference and to the many reasons which require that prompt and effective action be taken with respect to these funds.

The Spanish Minister, after consultation with the Costa Rican Government, has now proposed the following arrangement:

The dollars will be transferred to the Banco Nacional (which is the State bank) and there converted into colones. The Spanish Minister will then sign an undertaking whereby he commits himself not to draw on these funds in excess of \$200 (or its equivalent in colones) per month, for subsistence payments to indigent Italians here. The details of such withdrawals would be submitted to the Junta de Custodia, or to any agency designated by the Government, for information and approval.

The Minister of Finance has now requested this Embassy to inquire whether the Treasury Department will accept the dollars in the United States for credit to the Banco Nacional under the above arrangement.

DES PORTES

³¹ Luis D. Tinoco Castro succeeded Carlos Escalante as Minister of Finance in April 1943.

840.51 Frozen Credits/10666

*Memorandum by the Special Assistant at the Embassy in Costa Rica
(Desvernine)* ³²

REPORT ON FREEZING AND OTHER CONTROL MEASURES IN COSTA RICA
FOR THE MONTH OF MAY, 1943 ³³

Expropriation of coffee.

Upon being advised of the terms of the Department's airgram No. 399 of April 3, the Costa Rican Government proceeded to expropriate about 8,000 quintals of "frozen" coffee which had been produced or processed on enemy properties. Unfortunately, some of this coffee was produced on properties of Proclaimed List nationals which have not yet been expropriated, and it was necessary for this Embassy to bring again to the attention of the Junta de Custodia that the exportation of such coffee to the United States would not be permitted, inasmuch as the ownership of the producing property was the governing criterion. The Junta has agreed that coffee from properties of Proclaimed List nationals which have not been, and will not soon be, expropriated, will not be allowed to be exported. A major proportion of the coffee which has been expropriated, however, was produced on properties of Gmo. Niehaus & Company and Hubbe Hijos, which have also been expropriated.

E. DESVERNINE

811.51/6149 : Airgram

*The Secretary of State to the Ambassador in Costa Rica
(Des Portes)*

WASHINGTON, June 24, 1943—6 p. m.

A-518. Your A-678, June 1, and 485, June 17.³⁴ The Department and the Treasury Department are at the present disinclined to adopt the proposal made by the Spanish Minister set forth in your airgram above referred to. It appears that the recent position which he has adopted in regard to the funds held by him on behalf of the Italian Government is without adequate basis in fact, and has been assumed

³² Transmitted to the Department by the Ambassador in Costa Rica in his despatch No. 72 of June 4, 1943; received June 12.

³³ The portions of this monthly report on measures to control Axis-tainted properties and business transactions in Costa Rica have been omitted.

³⁴ Latter not printed; in this telegram the Ambassador informed the Department that the Costa Rican Minister of Finance, forced by the possible imminent departure of the Spanish Minister for a new post, was pressing the Embassy for the United States Treasury's reaction to the arrangement described in Embassy's airgram No. A-678, p. 105.

for bargaining purposes. It would further appear that the concession to the Spanish Minister to which this Government previously agreed, (Department's A-387, March 27, 1943) notwithstanding the objections [*obligations?*] of Costa Rica under the Washington Conference, is being used by him as an opening to develop further concessions which would obviously be contrary to the best interests of both Costa Rica and the United States. It is therefore regrettable that the Costa Rican Government has up to the present exhibited a tendency to accede to the wishes of the Spanish Minister in this matter. Therefore on the basis of the facts presented, this Government is inclined to refuse to release in this country the currency held in the name of the Spanish Minister unless in the opinion of the Embassy such refusal would mean the loss of adequate control of these funds. These funds it is noted are dollar funds and you may inform the local authorities that this Government takes the position that these are Axis funds and accordingly will take appropriate action to prevent their encashment. It is believed that this position may enable the Costa Rican Government to indicate to the Spanish Minister that the United States Government has not agreed to release these funds and therefore the Costa Rican Government is unable to extend him credit for the dollars which he deposited.

In discussing this matter with the Costa Rican authorities you may care to point out that the records of the Department do not appear to indicate that the Spanish Minister has ever denied that the funds in question are the property of the Italian Government, and that this is in fact the case is well known to all concerned. If the Spanish Minister desires to avoid any possibility of being stigmatized as an enemy of Costa Rica by having these funds held in the custody of the Junta, he should cause the name of the account under which the Italian funds are held to show the true ownership of the funds. You may care to stress to the local authorities the artificial position assumed by the Spanish Minister with reference to the funds of a government with which Costa Rica is at war. You may also care to point out to the Costa Rican authorities that the request of the Spanish Minister to make withdrawals from these Axis funds is contrary to Resolution I of the Washington Conference to which both Costa Rica and the United States subscribed. If the Costa Rican Government insists that the funds must be treated as the funds of the Spanish Minister, it might be well to inquire why the Spanish Minister desires to use his personal funds to make payments to enemy aliens in Costa Rica. It does not appear from the Department's records that these points have been brought out in discussions. In conveying to the appropriate Costa Rican authorities these suggested replies with particular reference to point

two of your airgram no. 678, you should be careful to avoid any appearance of going beyond a friendly and informal indication of the possible manner in which the Spanish Minister's arguments might be answered if the Costa Rican authorities should deem the suggestions appropriate.

It appears that it might be desirable for this Government to defer making a decision on the proposition recently advanced by the Spanish Minister until such time as he may have departed when it is believed that the Costa Rican Government may be more inclined to take positive action against these funds.

However, before any decision is made the views of the Embassy are desired in regard to the following points:

1. Does the Embassy consider it may be helpful to press the Costa Rican authorities to make further attempts to induce the Spanish Minister to recede from his position or is there a possibility that such a plan would jeopardize prospects of bringing the funds in question under Junta control? If the latter is the probable result, what informal controls might be established over payments from these funds to prevent their undesirable use?

2. Could the Spanish Minister be induced to permit the funds to be subjected to the control of the Junta, providing withdrawals up to \$200.00 per month were agreed to, and are there enough Italian subjects in need in Costa Rica and under the care of the Spanish Minister to justify expenditures up to \$200.00 a month for their subsistence. On what basis was this figure arrived at?

3. When is it expected that the Spanish Minister will be departing from Costa Rica? To what post is he assigned? Would not the Costa Rican Government be more likely to take effective steps against these funds after he has gone? Has a successor been named and in transferring the funds to the possible successor, could it be required that the ownership of the Italian Government be shown?

4. What in the opinion of the Embassy would be the disposition of the funds if this Government (a) refuses to accept the proposition of the Spanish Minister, or (b) defers its decision on the proposition until after the Minister will have left Costa Rica in the hope that the Costa Rican authorities would deliver these funds to the Junta at a later date.

5. Is there any possibility, in spite of appropriate representations which would of course immediately be made by the Embassy, that the Banco de Costa Rica might return these funds to the Minister and that he might be permitted to take them out of Costa Rica?

6. Does the Embassy feel that it would be inadvisable not to agree to the present proposal? What is the Embassy's recommendation?

The Department appreciates the difficulties of appraising the above situation which is so largely based upon the personalities concerned. It is hoped, however, that the Embassy may be able to make suggestions which will result in the adoption by the local authorities of a course of action which will effectively block these funds.

HULL

811.515/2084 : Airgram

The Ambassador in Costa Rica (Des Portes) to the Secretary of State

SAN JOSÉ, July 9, 1943—8:30 a. m.

[Received July 12—2 p. m.]

A-776. Reference the Department's A-518, June 24. Following receipt of the above airgram, a conference was held with Minister Tinoco at which he was informed in substance that our Government regarded the funds as Axis funds, that it was not inclined to accept the dollars for release in the United States unless the equivalent in colones should be effectively blocked here, and that it was not disposed to make any further concessions to the Spanish Minister.

While the Spanish Minister has never denied the true ownership of the funds, he has been careful to avoid express recognition of that fact. He has implicitly admitted their Italian Government ownership, however, by entering into negotiations with the Costa Rican Government for the blocking of the funds and requesting permission to make payments to Italian subjects. This argument has been pointed out to the Minister of Finance, whose attention has also repeatedly been called to the provisions of Resolution I of the Washington Conference (see my airgram A-678, June 1, 1943) and to Articles 5 and 11 of the Costa Rican Law No. 126 [26] of December 12, 1942, which provide, respectively, that subsistence payments to enemy nationals are not to be made out of funds within the country and that funds of enemy governments are to be "frozen" by the Junta de Custodia.

The Embassy wishes to make the following observations with respect to the points raised in the Department's airgram above-mentioned:

1. While the Junta de Custodia is undoubtedly the agency best qualified to exercise supervision over the funds, it is not believed necessary to insist that the funds be brought under Junta control, provided effective blocking can be otherwise secured. To press for control by the Junta might unnecessarily delay and hamper negotiations, since the Spanish Minister is reluctant to follow this course and the Costa Rican Government appears disposed to accede to his wishes in this respect. Although the point has not been made, it is believed that the real reason for the Spanish Minister's objections to the Junta is his fear that the provisions of local law which call for investment of "frozen" funds in Costa Rican Defense Bonds would be applied to the funds in question if they should come under Junta control. As an appropriate alternative, the funds could be (a) blocked under the direct control of the Minister of Finance; (b) blocked under the control of the Superintendent of Banks, or (c) blocked by written voluntary agreement between the bank and the Spanish Minister.

2. It is unlikely that the Spanish Minister could be induced to permit the funds to be subjected to the direct control of the Junta even if payments of \$200 per month should be authorized for the reasons above stated. While this Embassy has asked for a list of the indigent

Italian subjects to whom payments would be made, such a list has not yet been presented. It is not believed that there are enough persons in this category to justify the expenditure of that amount, and in any event, this Embassy does not believe it advisable to accede to the Spanish Minister's wishes in this respect, since such expenditures are in derogation of Inter-American commitments at the Washington Conference. As a maximum concession, it is believed that payments no greater than 300 colones per month in toto could be authorized, in view of the insignificant proportion this would bear to the total amount, but even this concession should be made only if the negotiations would be otherwise jeopardized.

3. It is not known when the Spanish Minister will depart from Costa Rica. He has announced that he has been tentatively assigned to Valparaiso, Chile, to occupy the post of Consul General, and that he is to be succeeded by the present Spanish Minister in Venezuela, but he has not yet received definite orders from his Government. The information contained in my telegram No. 485 of June 17,³⁵ was based on a statement made by Minister Tinoco to the effect that the Spanish Minister's departure was imminent. Whether or not the Costa Rican Government would be more inclined to take effective action against the funds after such an event is a moot question, but the man who has been mentioned as the Spanish Minister's successor is known to be an ardent Falangista and might prove more difficult than the incumbent.

4. It is being very clearly pointed out to the Costa Rican Government and to the Spanish Minister that the dollars are likely to be worthless to the latter unless the procedure already accepted by the U. S. Government is followed. (a) Refusal to accept the proposition of the Spanish Minister will therefore probably compel him to back down. (b) To defer decision until after the departure of the Spanish Minister is not believed advisable since the date of such departure is uncertain and considerable delay may intervene.

5. While the circulation of dollar currency is prohibited in Costa Rica, the Banco de Costa Rica has indicated that said provision is interpreted in the sense of the use of dollar currency for the payment of goods or services, and that the Banco de Costa Rica would still be bound, if the Spanish Minister should attempt to withdraw the funds from the bank, to make payment. On the other hand, he is not likely to attempt to take such funds out of Costa Rica, firstly, because he knows that the funds are "marked" and could easily be traced; secondly, because he has informally promised the Costa Rican Government that he would not do so, and he would be considered morally bound; and thirdly, because this Embassy would feel justified in making strong representations to the Costa Rican Government in such an event.

6. The Embassy considers it advisable that the Spanish Minister's present proposal should be turned down, and is of the opinion that the interests of both Costa Rica and the United States with respect to the funds in question will best be served by a determined stand on the part of our Government to prevent encashment of the dollars unless compliance with the terms of Resolution I of the Washington Conference is secured.

DES PORTES

³⁵ See footnote 34, p. 107.

811.515/2119 : Airgram

The Ambassador in Costa Rica (Des Portes) to the Secretary of State

SAN JOSÉ, August 14, 1943—8:30 a. m.

[Received August 18—2 p. m.]

A-859. Refer Embassy's A-776, July 9, 1943.

While the Spanish Minister has orally indicated to Minister Tinoco that he would agree to the blocking of the funds under some agency of the Costa Rican Government (not the Junta de Custodia) provided he is permitted to withdraw up to 300 colones per month for payments to indigent Italians, he is now refusing to commit himself definitely on the matter until he obtains an answer from the Costa Rican Government to his note requesting that Spanish nationals in Costa Rica be exempted from financial and economic controls (see my despatch No. 361 of August 6, 1943³⁶). He has inferred that his position with respect to the Italian Government funds will be affected, if not governed, by the Costa Rican Government's reply to the note in question.

Señor Tinoco has tendered his resignation as Minister of Finance and is handling the business of that office only pending the appointment of a new Minister, which is expected shortly.

All of the foregoing circumstances make it urgent, in the Embassy's opinion, that the Costa Rican Government be informed that unless the funds are properly frozen and the dollars remitted to the United States by a certain date, say September 15th, they will be treated as Axis funds and their encashment in or out of the United States, by any bank or institution subject to the jurisdiction of the United States, will not be permitted.

Immediate authorization to take such action is requested.

DES PORTES

811.515/2119 : Telegram

*The Acting Secretary of State to the Ambassador in Costa Rica
(Des Portes)*

WASHINGTON, August 21, 1943—10 p. m.

535. Your A-859, August 14. You are authorized, in your discretion, to inform the Costa Rican Government in general in accordance with the penultimate paragraph of your airgram but, rather than mentioning a specific date as the deadline, with the finality which a specific date connotes, you should, if you deem it advisable, inform the Costa Rican officials that the United States authorities will take

³⁶ Not printed.

steps to prevent encashment of the notes unless their deposit and appropriate freezing is effectuated within the very near future.

WELLES

811.515/2084 : Airgram

*The Acting Secretary of State to the Ambassador in Costa Rica
(Des Portes)*

WASHINGTON, August 24, 1943—1:10 p. m.

A-633. Your 776, July 9. The Department does not desire to jeopardize the prospects of effectively controlling this currency by insisting that it be brought under the control of the Junta de Custodia, especially in view of your indication that an "appropriate alternative" exists.

However, the Embassy's despatch 778, September 10, 1942,³⁷ contains certain information modifying Article 9 of Law No. 66 of June 28, 1942, and drawing a distinction between "frozen funds" and "controlled funds" under the jurisdiction of the Junta. As the Embassy indicates that the Junta is undoubtedly the agency best qualified to exercise supervision over the funds, the Department would naturally prefer that the funds be delivered to the custody of the Junta and in this connection it occurs to the Department that the possible fears of the Spanish Minister to subjecting the funds of the Italian Government to investment in Costa Rican defense bonds might be met if the Junta considered the funds as "controlled" rather than "frozen".

It is desired that if you see no objection to so doing, you suggest to the Minister of Finance or other appropriate authorities that they approach the Spanish Minister with the suggestion that the funds would be considered as "controlled" and not "frozen" which it is believed would allay any fears of the Spanish Minister in regard to the possible investment of these funds in Costa Rican defense bonds. You are also authorized to inform the Spanish Minister that as an exceptional case this Government would not object to the withdrawal by the power representing Italian interests of such funds as may be necessary for the payment of minimum subsistence to destitute Italians in Costa Rica. It is assumed that these payments would not in any event exceed a total of 300 colones per month and it is suggested that the number of colones to be withdrawn should be based upon the list of indigent Italian subjects which the Embassy has requested be submitted.

If, however, the Embassy feels that in further proposing that the funds be subjected to the control of the Junta the Embassy may

³⁷ Not printed.

jeopardize the possibilities of subjecting the funds to other controls, the Embassy should not necessarily press for control of the funds by the Junta but, before taking final action, should report to the Department which of the three alternatives suggested in the final sentence in numbered paragraph one of the Embassy's airgram under reference is considered by the Embassy to be most desirable. Payment of minimum subsistence to indigent Italians as referred to above would be permissible under the alternative recommended.

The Department finds it difficult to recommend as between alternatives *a*), *b*) and *c*) as referred to in your airgram because of the important part which it appears is played by the personalities involved in connection with the administration of the local controls. It therefore appears that the Embassy is in a better position than the Department to determine which of the three alternatives offers the best prospects of effective blocking these funds for what may be a prolonged period after they have been converted into colones. The Embassy realizes that once the funds have been credited to the Banco de Costa Rica, the control over these funds now held by this Government is ended and for this reason it may continue to be desirable to permit the funds to remain in the form of dollar bills until effective control over the equivalent in colones would be established.

BERLE

811.515/2144

The Chargé in Costa Rica (Trueblood) to the Secretary of State

No. 545

SAN JOSÉ, September 4, 1943.

[Received September 13.]

Subject: Foreign Funds Control: Blocking of Funds Held by Spanish Minister and Owned by the Italian Government.

SIR: I have the honor to refer to the Department's Airgram A-633 of August 24th and to the previous communications on the above subject and to report that the Minister of Finance, Señor Francisco de P. Gutierrez has issued instructions to the Junta de Custodia to block the funds held by the Spanish Minister in Costa Rica for the Italian Government. A translation of the note sent by the Minister of Finance to the Junta de Custodia on this subject is transmitted herewith.³⁸

Shortly after the appointment of Señor Gutierrez as Minister of Finance, representatives of this Embassy called on him to discuss this subject and left with him a memorandum³⁸ outlining the facts in the case and requesting that prompt action be taken. The Minister replied that he would give the matter his immediate attention and a

³⁸ Not printed.

few days later advised this Embassy that he was in entire agreement with our position and that he was issuing appropriate instructions. The note which he sent to the Junta de Custodia contains all of the points which were set forth in the memorandum which had been prepared by this Embassy. Señor Gutierrez informed the representatives of this Embassy that the dollars would be changed into colones and that the latter would be frozen under the control of the Junta de Custodia but that the Spanish Minister would be permitted to draw no more than $\text{Q}300$ per month for payment of subsistence expenses to indigent Italians. It will be recalled that this arrangement was approved by the Department and the Treasury Department as announced in the Department's Airgram A-387 of March 27. It will be noted, however, that in his note to the Junta de Custodia, the Minister of Finance not only fails to mention that any withdrawals will be permitted, but also points to the particular provision of the pertinent Washington Conference Resolution and to the local law under which such withdrawals would not be authorized.

It is expected that the dollars held by the Banco de Costa Rica will now be transferred to the Banco Nacional to be converted into colones and that the Banco Nacional will remit the dollars in question to the Federal Reserve Bank in New York to be credited to its account there in accordance with the understanding already reached with the Treasury Department. The solution which has finally been found to the problem which has been pending for almost a year would appear to be even more favorable than had been expected by this Embassy, since the funds will be controlled directly by the Junta de Custodia and since there is some doubt as to whether any withdrawals at all will be permitted from the account. As is quite evident, the Minister of Finance has taken this action without consulting the Spanish Minister.

There is enclosed herewith a clipping of a news item which appeared in *La Prensa Libre*, the local afternoon newspaper, concerning the blocking of the funds in question.³⁹

Respectfully yours,

EDWARD G. TRUEBLOOD

811.515/2145: Telegram

The Chargé in Costa Rica (Trueblood) to the Secretary of State

SAN JOSÉ, September 14, 1943—5 p. m.

[Received 11:44 p. m.]

646. Reference Department's telegram 535, August 21, and my despatch No. 545 of September 4. The Minister of Finance has instructed the Junta de Custodia to take the necessary steps to convert the dollar

³⁹ Not reprinted.

funds held by the Spanish Minister into colones and block the latter. Foreign Minister Echandi ⁴¹ has now informed me that this instruction was issued without his consent and has raised the question whether the armistice concluded with the Italian Government may not change the juridical status of these funds and make it inopportune to take action at this time. Since I expect to discuss this matter personally with the Foreign Minister later in the week I shall appreciate receipt of the Department's views by telegraph.

TRUEBLOOD

811.515/2145 : Telegram

The Secretary of State to the Ambassador in Costa Rica (Des Portes)

WASHINGTON, September 17, 1943—4 p. m.

594. Your 646.⁴² You may inform the Foreign Minister that the position of this Government regarding Italian funds blocked in this country has not changed by reason of recent events in Italy, that no Italian funds in this country have been unblocked because of these events. Accordingly the attitude of this Government, that the funds in question should be brought under effective control, remains unchanged.

If it appears that effective control in Costa Rica is not to be established and as a possible means of reaffirming that steps will be taken by this Government, it is suggested that in your discretion you endeavor to have earmarked an appropriate amount of dollar currency for Italian account and to obtain the serial number, denomination and series year of the bills for the future use of the Treasury.

HULL

740.18112A/23

The Chargé in Costa Rica (Trueblood) to the Secretary of State

No. 608

SAN JOSÉ, September 27, 1943.

[Received October 1.]

SIR: I have the honor to refer to the Department's circular instruction of August 20, 1943,⁴³ regarding procedures and policies on the maintenance of the Proclaimed List.

The instruction has been read with great care and interest and this Embassy is fully in agreement with the principles underlying the policies described therein. Regarding the specific application of these policies to Costa Rica, the following observations are believed to be pertinent:

⁴¹ Alberto Echandi.

⁴² *Supra*.

⁴³ Not printed.

With respect to future additions to the list in Costa Rica, the Embassy believes that the limitation of recommendations in the manner described in page 4 of the instruction is practicable and consonant with our interests, and with these limitations it is believed that there will be little, if any need for future additions, unless it is subsequently found that cloaking operations cannot be adequately and effectively controlled otherwise.

With respect to maintaining the Proclaimed List in Costa Rica as an instrument of control, it is unanimously agreed in the Embassy that the Costa Rican Government cannot now, or in the foreseeable future, be depended upon to exercise effective controls without the support of the Proclaimed List. It is believed, therefore, that an offer to delete all or nearly all of the names on the list for Costa Rica as a means of obtaining further action by the local authorities would not achieve the desired results, and such deletions as should take place (which will be described hereinafter) should be based on individual cases and on the decision as to whether any control at all should continue to be maintained in those cases. The reasons for this Embassy's lack of confidence in the ability of the Costa Rican authorities to maintain adequate controls in the absence of the Proclaimed List are various: firstly, Costa Rica inevitably looks to the United States to set the pace in the field of economic warfare, as it does in many other fields. This being the case, the elimination of our Proclaimed List controls—regardless of our explanations and protests to the contrary—would unquestionably be interpreted as an indication that a stage of the war has been reached where a general relaxation of economic warfare measures is desirable. Secondly, the Proclaimed List is the very backbone of the Costa Rican controls. The control laws expressly refer to the Proclaimed List and make the controls specifically applicable to persons and firms on the list. Elimination of our Proclaimed List might therefore require a substantial change in existing legislation. Thirdly, it is probable that maintenance of our Proclaimed List has been mainly responsible for such controls as have been established here and for the measures which have been taken, particularly within the past year, with regard to enemy property. As has been previously reported to the Department, almost all of the enemy property expropriations which have taken place to date have been expressly based on "the injury suffered by the local economy by reason of the inclusion of the properties or industries on the Proclaimed List" and the consequent necessity that their ownership be transferred to desirable interests. Costa Rica is a small country with a very high incidence of inter-marriages, and the ties of blood and marriage are factors of great political weight. Costa Rican authorities are often able to withstand pressure of this sort by pointing to

the Proclaimed List, over which they have no control, and justifying their actions on the basis of the position in which they have been placed by reason of the action of our Government. The Proclaimed List can therefore be regarded as a wall which has protected and supported the local controls, and if the wall should crumble, the disintegrating force of political and family pressures would have free play. This is illustrated by the fact that many persons who are on the list have been known to state that they are not in the least disturbed by the controls maintained by the Junta de Custodia; that their main concern is to get off the Proclaimed List and if they succeed in doing so, they will be able to get along even within the framework of the local controls. Likewise, Costa Rican officials have sometimes approached this Embassy and requested that specified persons whom they wish to control be included in the list, for otherwise they would not be able to do so.

With all of the above considerations in mind, it is unquestionable that much has been accomplished by local measures. The richest and most important agricultural and industrial properties of Proclaimed List nationals, aggregating about three million dollars in value (a large figure for this country) have been expropriated; other firms have been forced to liquidate, while many have been sold to desirable interests, and the large bakery of Musmanni Hermanos has suspended operations for almost a year. The Proclaimed List in Costa Rica is undoubtedly cluttered with the names of many persons who are neither dangerous, important, nor powerful, who own no property, and whose continued control not only fails to serve a useful purpose but may actually be detrimental to our interests. There are, for instance, individuals who have been included in the list because of one or more cloaking transactions in the past, which may have been the result of ignorance, poor judgment or other factors, but not necessarily lack of sympathy with our cause. The net effect of their inclusion in the list is that they are not only unable to do business by themselves, but they are unable to secure any employment, and they are faced with the alternatives of being driven to complete dependence upon others in order to subsist, or of seeking clandestine ways of earning their living. This results in ill will toward the United States for what appears to be a policy of persecution against individuals who cannot be regarded as dangerous to our interests. It is not intended to intimate that our Proclaimed List policy with regard to cloaking has been erroneous, for it is firmly believed that the vigor with which this policy has been executed has been a great deterrent to cloaking operations, but cloaking is dangerous only insofar as it benefits interests which are inimical and which should be controlled and the number of the latter in Costa Rica is now substantially limited.

The Embassy proposes, therefore, to pursue the following procedure with respect to the Proclaimed List in Costa Rica, and the Department's views on the desirability of this plan will be appreciated.

The Proclaimed List will be subjected to a careful and thorough revision for the purpose of determining those names which, in any event, should be kept on the list, either because they should be controlled and the Embassy is satisfied that they would not otherwise be controlled, or because their pro-Axis sentiments or Axis affiliations are so well and commonly known that their deletion would have an unfavorable popular effect. The remaining names could then be considered as proper cases for exclusion from the list, but the Embassy would not recommend their deletion in a block. It is believed the effect of a sudden and substantial curtailment of the Proclaimed List would not be desirable, from the point of view of the reaction of the local authorities as well as of the public. Recommendations for deletion would be undertaken in a gradual manner, starting with those cases which are most clearly proper for such action and which have been on the list for the longest time. In this manner, too, the effect of the policy could be gauged more properly and if for any reason further curtailment of the list did not appear desirable at a given stage, the process could be discontinued. It is expected, however, that in this manner the Proclaimed List could eventually be restricted to the nucleus of really "bad" cases, where further deletion would be harmful to our interests.

Of course, if at any time it appeared that full reliance could be placed on the local controls and that elimination of the list in Costa Rica could be undertaken without detriment to our interests, the Department would be so advised with a view to the establishment of a program along the lines of that which is contemplated in the case of Brazil.

Respectfully yours,

EDWARD G. TRUEBLOOD

840.51 Frozen Credits 18/11

*Memorandum by the Special Assistant at the Embassy in Costa Rica
(Desvernine)*⁴⁴

REPORT ON FREEZING CONTROLS AND OTHER MEASURES IN COSTA RICA FOR THE MONTH OF OCTOBER, 1943

Expropriated enemy properties.—About nine months have elapsed since most of the enemy properties in Costa Rica were expropriated by the Government under the provisions of law No. 26 of December

⁴⁴ Transmitted to the Department by the Chargé in Costa Rica in his despatch No. 764, November 8; received November 13.

12, 1942, and to this date the appraisal proceedings have not yet been completed and none of the properties has been offered for sale, as contemplated in that law. As previously reported, the experts have submitted their valuation reports to the court and it is now necessary for the judge to issue an order establishing the value of the properties and fixing a date for their sale at public auction. The Government's attorney has now presented a motion to the court in which he calls for the issuance of the order.

In the meantime, the attorney for Gmo. Niehaus & Co. (PL⁴⁵) Celso Gamboa, who has been mainly responsible for the obstructionistic tactics which have dragged out the proceedings over a period of so many months, has presented a number of claims against the Government for alleged arbitrary action and has asked the court to declare law No. 26 of December 12, 1942, unconstitutional. Gamboa claims that article 18 of said law violates his client's constitutional rights in that it limits their proof of damages (for the expropriation of the property) to the testimony of experts. The legal basis of his claim is far from clear, inasmuch as the parties were permitted to select their own experts, and the latter are apparently free to adduce any type of evidence in support of their claims, but this Embassy is not yet in possession of sufficient information concerning the points raised by Señor Gamboa to determine whether there is any merit behind them. It is known that Gamboa claims that merchandise which belonged to his clients and which was stored in a commissary at "Waldeck" and in their warehouse at Limon was arbitrarily removed by political and military officials of the Government, and that no compensation was made therefor. He apparently contends that under the rules relating to the valuation of the properties which were expropriated, his clients are unable to introduce proof of these damages. Gamboa ends his appeal in this fashion: "Against innocent victims of violations of law and justice perpetrated by other governments, who, because of petty intrigues today have to endure the moral and economic asphyxiation resulting from their inclusion in the (Proclaimed) list,—against these people, I say, the sovereign, constitutional Congress has unleashed all its force by means of an interminable series of laws without paying any attention to constitutional restrictions, and forgetting thus that force without justice is tyranny." Gamboa's suit represents the strongest attack yet made on enemy property legislation in Costa Rica and on the measures taken thereunder.

Government's use of expropriated properties to raise funds—Defense Bonds.—In its efforts to raise further funds to continue the work of the paving the streets in San José, the Government has

⁴⁵ Proclaimed List.

resorted to taking out "Cédulas Hipotecarias" on some of the expropriated properties and using these as security to borrow funds. These Cédulas are bearer mortgage certificates and are readily acceptable in the local financial market. It is officially reported that the Government has taken out cédulas in the value of ¢1,000,000 (one million colones) on Waldeck, a large cacao farm expropriated from Gmo. Niehaus & Co. and that the Government also intends to mortgage the coffee crop of Hacienda "La Caja", the best and most valuable of the coffee properties, which was expropriated from Hubbe Hijos (PL).

The Government is also continuing to use Defense Bonds, which were issued under the authority of law No. 26 of December 12, 1942, to pay off contractors and other creditors, although it is apparently finding it increasingly hard to dispose of the bonds without a sizeable discount, which amounts in some cases to 30 and 35%. When these bonds were originally issued, it was generally understood that they would be used exclusively as a means of payment for the expropriated enemy properties, as well as a means whereby the Government could have the use of frozen funds, which are required by law to be invested in Government securities. Instead, the Government has resorted to disposing of these bonds by sale in the open market and in the manner described above, with the result that when the time comes to pay for the expropriated properties the Government may be forced to put out a new bond issue. Although two quarterly interest payments have come due on these bonds since they were issued, no interest has yet been paid and the bonds are generally considered a risky investment. On the other hand, Señor Alberto Echandi, the Minister for Foreign Affairs, recently informed a member of this Embassy that he had invested funds of his own in these bonds, and that in his opinion the Government had made a mistake in issuing these bonds, since they yield a high rate of interest (6% per year)—and represent a "profitable" investment for enemy nationals. Sr. Echandi indicated that after the war it might be a good policy for the Costa Rican Government to borrow funds from the United States at 3% for the purpose of calling in these bonds.

[Here follows a report on enemy trademarks and a proposed plan for the liquidation of Cía. Automotriz (Proclaimed List).]

Campaign of Proclaimed List Italians for deletion from the List.—The Embassy has continued to receive letters from Italians included in the Proclaimed List requesting reconsideration of their cases in view of recent developments in Italy. Recently a local newspaper published an item to the effect that Proclaimed List Italians in Costa Rica were planning to organize a committee to make formal repre-

sentations to the United States and Costa Rican Governments requesting to be excluded from all controls and restrictions. This brought forth a formal statement from Señor Echandi, Minister for Foreign Affairs, in which he asserted that the recent armistice and other events concerning Italy had not altered the status of Italians in Costa Rica and that the attitude and policy of the Costa Rican Government with respect to them had undergone no change. Señor Echandi's statement has apparently discouraged the Italians from further public agitation.

Enactment of decree defining status of Spanish nationals in Costa Rica included in Proclaimed List.—In response to pressure from the Spanish Minister in Costa Rica, who has long been seeking to induce the Costa Rican Government to exclude all Spanish nationals from economic and financial controls, the President has issued Executive Decree No. 73, dated October 22, 1943, which provides that for the purposes of article 3 of law No. 26 of December 12, 1942, Spanish nationals are to enjoy the same rights as Costa Rican citizens. It is unlikely that the Spanish Minister, or Pedro Surroca (PL) whom the former obviously sought to benefit, will be pleased with this "solution". Article 3 above mentioned provides that Costa Ricans who are included in the Proclaimed List are subject to local controls provided they have engaged in some activity contrary to the interests of Costa Rica or its Allies. Inclusion in the Proclaimed List is evidently considered to give rise to a presumption of such activity since the burden of proof is held to rest on the person who seeks to be excluded from the controls. By decreeing that Costa Ricans and Spaniards are to be treated in the same manner, therefore, the Costa Rican Government has hardly improved the latter's position, while freeing itself of the charges of discrimination and treaty violation asserted by the Spanish Minister.

EUGENE DESVERNINE

740.18112A/23

The Secretary of State to the Chargé in Costa Rica (Trueblood)

No. 321

WASHINGTON, November 22, 1943.

The Secretary of State refers to the Embassy's despatch no. 608 of September 27, 1943, concerning procedures and policies with regard to the maintenance of the Proclaimed List in Costa Rica and requesting the Department's views on the desirability of the plan proposed by the Embassy.

The Department concurs in general with the views expressed by the Embassy in this despatch, particularly with regard to the desirability of maintaining the Proclaimed List in Costa Rica as an instrument of control. With regard to the policy to be followed in

recommending deletions from the List, the Department has the following comments to make:

In the case of the deletions of names included for cloaking activities, the following criteria are suggested:

(1) The importance of the amount involved in the cloaking transaction as contrasted to the size of the business or assets of the person listed;

(2) Whether the transaction was entered into with knowledge of the possible consequences, or through ignorance or poor judgment;

(3) In instances of repeated cloaking activities, the length of time covered by the cloaking transactions and whether the person was warned by the Embassy before listing;

(4) The political sympathies of the person and the attitude evinced by him toward the United States;

(5) Whether there are reasonable grounds to believe that these cloaking activities would not be repeated subsequent to deletion.

With regard to persons listed because of their political beliefs or activities, it is not felt that deletions should be recommended unless there are reasonable grounds to believe that the sympathies of the person involved have actually undergone a change and that the professions of pro-Allied beliefs are not made for expediency. It is felt that the controlling factor should not be the lack of publicity given to their pro-Axis sentiments or affiliations, but rather the presence of a genuine change of sympathy, the severance of all Axis affiliations, and the belief by the Embassy that the persons involved will not in the future engage in inimical activities or the dissemination of Nazi doctrines.

Recommendations for deletion should, as stated by the Embassy, be considered individually in order that any curtailment of the List resulting therefrom may be on a gradual basis. The Officer in Charge is requested to report to the Department concerning any effect the published deletions may have on Costa Rican public opinion.

DISCUSSION CONCERNING GOLD CLAUSE CASES IN COSTA RICAN COURTS

818.51/1061 : Telegram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, March 24, 1943—10 a. m.

[Received 4:21 p. m.]

268. Reference my despatch No. 655 [656] of August 15, 1942.⁴⁶ The Appellate Section of the Supreme Court yesterday ruled that the

⁴⁶ Not printed.

United Fruit Company is liable for the payment of some \$200,000 in the so-called gold clause cases.⁴⁷ This decision which has not yet been published affirms the decision of the lower court which was reported in my despatch under reference and reverses the decision of the lower courts in one of the cases which had been previously decided in favor of the United Fruit Company.

On Monday afternoon the lower courts had ruled in favor of the United Fruit Company in two other gold clause cases. I am informed by the chief attorney for the company however that the decision of the Appellate Section of the Supreme Court will no doubt establish a precedent on which subsequent appeals will be decided. He informs me that there is one further course of action open to the company, namely, submitting an appeal from the decision of the Appellate Section of the Supreme Court to the Court of Cassation which is another section of the Supreme Court composed of 5 judges rather than the 3 making up the Appellate Section. The United Fruit Company will make such an appeal within a few days.

I shall furnish the Department full details of the decisions by despatch as soon as they are available.

SCOTTEN

818.51/1061 : Airgram

The Secretary of State to the Minister in Costa Rica (Scotten)

WASHINGTON, April 3, 1943—3:40 p. m.

A-396. Reference your 268, March 24, 10 a. m. Please forward to the Department as soon as possible an English translation of the decision of the Appellate Section of the Costa Rican Supreme Court.⁴⁸

Please also inform the Department by airgram (1) whether the three judges of the Appellate Section sit also on the Court of Cassation, (2) whether the lawyers for the United Fruit Company believe that the Court of Cassation will uphold the Appellate Section's decision, (3) whether these lawyers believe that the Appellate Section's decision if affirmed will constitute a denial of justice⁴⁹ and if so on what specific grounds, (4) whether the precedent established by the Appel-

⁴⁷ The "so-called gold clause cases" in Costa Rica referred to here were suits brought against the United Fruit Company and its subsidiary, Compañía Bananera de Costa Rica, by banana planters who claimed that their original sales contracts with those companies contained "gold clauses" which could be interpreted to justify a price increase on bananas following the United States devaluation of its gold dollar on January 31, 1934.

⁴⁸ English and Spanish copies of the decision were transmitted to the Department by the Minister in Costa Rica in his despatch No. 1688 of April 16, not printed.

⁴⁹ According to Green H. Hackworth, *Digest of International Law*, vol. v, pp. 526-527, "Denial of Justice" may consist either of denial of access to the courts or of injustice at their hands.

late Section's decision if affirmed would not apply equally to many other private contracts in Costa Rica, with consequent confusion and litigation, (5) on what grounds the National Bank of Costa Rica is relieved of its obligation to redeem its notes in gold coin (see your despatch no. 402 of June 22, 1942⁵⁰) (6) whether the Government is likely to bring suit against the United Fruit Company.

The Department is concerned at the decision of the Appellate Section, which is at variance with decisions of the Supreme Court in interpreting this country's policy regarding the important matter of gold clauses in contracts. Moreover, the raising of the question of gold clause payments at this late date would appear to constitute highly inequitable treatment in view of the time which has elapsed and the whole course of dealings between the United Fruit Company and Costa Rican citizens. Such a decision if upheld would obviously be a deterrent to other capitalists who might wish to invest in Costa Rica.

You may express the views set out in the above paragraph discreetly and informally to President Calderón Guardia.

HULL

818.51/1072 : Airgram

The Minister in Costa Rica (Scotten) to the Secretary of State

SAN JOSÉ, April 14, 1943—9:30 a. m.

[Received April 17—4 p. m.]

A-575. Reference the Department's airgram A-396 of April 3, 1943, 3:40 p. m.

(1) The three judges of the Appellate Section of the Supreme Court do not sit in the Cassation Section of that Court; it being made up of five other judges.

(2) The lawyers of the United Fruit Company do not know whether the Cassation Section will uphold the decision of the Appellate Section. They point out, however, that three of the five decisions rendered in the lower courts were favorable to the Company, but that the decision of the Appellate Section was unanimously against the Company in the two suits decided by it. They also state that recourse to Cassation is not an appeal with complete review of the case, but a limited recourse for revising errors of law and some errors of fact, and that the Cassation Section sustains the judgement of the Appellate Section in a substantial majority of cases.

(3) The lawyers for the Company have referred the matter of denial of justice to the office of the General Counsel for the Company in Boston, but they state that they are convinced the litigation insti-

⁵⁰ Not printed.

tuted in these suits is purely speculative, and that the legal and equitable position of the Company is sound.

(4) The lawyers of the United Fruit Company believe that much litigation and confusion might arise as a result of an adverse decision by the Court of Cassation. They state that the courts in Costa Rica might adopt the viewpoint that any contract executed in dollars is subject to review on the grounds that any contract prior to 1934 contemplated the gold clause. They specifically mention the payment of dividends, interest, royalties or principal on dollar obligations dated prior to 1934. With respect to the confusion that might arise the attorneys feel that an adverse decision in this case would upset established monetary policy of the United States, making the establishment of future monetary policy more difficult.

They also point out that Costa Rica is enjoying the advantages of payment of its own gold dollar bonds in the present money of the United States rather than in the currency which existed prior to 1934. Or, in other words, Costa Rica is taking advantage of American monetary legislation to reduce its own debts without wishing to concede the same advantage to debtors located within Costa Rica.

The Fruit Company lawyers also feel that courts in other countries of the American Republics may attempt to extend the principle, which would be established by an adverse decision in this case, to any dollar contracts entered into prior to 1934 on the theory that such contracts contemplated payment in dollars of the gold content existing on the date of the contract. In this connection it should be pointed out that Señor Gutiérrez,⁵¹ attorney for one of the plaintiffs in these cases, has left for Colombia with the intention of instituting similar suits against the United Fruit Company in that country.

(5) The National Bank of Costa Rica is relieved of its obligation to redeem banknotes of the Banco Internacional de Costa Rica, in gold, by internal legislation. In September 1914, conversion of these notes was temporarily suspended by the Constitutional Law of the Banco Internacional de Costa Rica, Article IX, which stated: “. . .⁵² their conversion shall begin one year from the date of the signing of the peace, or previously if the Executive so rules.” However, convertibility was not authorized, and various new laws were passed prolonging the suspension of convertibility until Law No. 19 of April 11, 1921, according to which all banks were obliged to exchange their banknotes in accordance with Article 34 of the Banking Law. However, paragraph 2 of Article 1 of this law stated: “The Banco Internacional de Costa Rica shall be excluded from the provisions of this law, and its banknotes shall be convertible in a manner established by a forth-

⁵¹ Francisco de Paula Gutiérrez Mangel.

⁵² Omission indicated in the original airgram.

coming law." This law never appeared. In Law No. 64 of March 28, 1933, it was stated: "Within a period of two months from the publication of this law, the Caja de Conversión shall pay its banknotes in accordance with their text; and after this period in banknotes of the Banco Internacional de Costa Rica conforming, on day of payment, to the official exchange rate fixed by the Special Board of Exchange Control". The banknotes of the Caja de Conversión read: "Banco Internacional de Costa Rica—Caja de Conversión— x Colones in gold coin of the United States of America or drafts on New York in the option of the administrator at a rate of one dollar for each four colones."

This law was superseded by Law No. 16 of March 5, 1936. Article 3 of the Artículos Transitorios of this law states:

"The Issue Department (of the Banco Nacional de Costa Rica) shall take charge of the assets and liabilities of the Caja de Conversión, which shall be liquidated.

"Within a period of three months of the effective date of this law, the Issue Department shall redeem the banknotes of the Caja de Conversión in accordance with the regulations of Law No. 64 of March 28, 1933; after this period it shall exchange them for banknotes of the Bank, at par, that is for face value in colones."

(6) The United Fruit Company has been unofficially informed that the Government does not intend to bring suit. However, this does not bind any future Government not to do so. I have also been assured by the President that his Government will not sue the Fruit Company.

I have noted that the Department authorizes me "to express discreetly and informally" the Department's views to the President. In view of the seriousness of the present situation, and the distinct likelihood that an adverse decision will be rendered by the Court of Cassation, and in view of the fact that, in accordance with the Department's instructions Nos. 230 of July 4, 1942 and 336 of August 10, 1942,⁵³ I have already "informally" set forth the Department's views in the course of several conversations with the President on this subject, I feel that the Department may wish its representations made by means of a formal note. This might serve the dual purpose of impressing upon the President the preoccupation of the Department, and at the same time give him valuable backing which he could use in the conversations which he necessarily must have with the judges in the Court of Cassation. I am fully aware of the delicate issues involved and the Department's traditional reluctance to intervene in private lawsuits; nevertheless, the serious effect which an adverse decision in these cases would have upon our interests, not only in

⁵³ Neither printed.

Costa Rica but also in many other countries, is such that the Department may feel justified in adopting a firm stand at this time.

SCOTTEN

818.51/1072 : Airgram

The Secretary of State to the Chargé in Costa Rica (Reed)

WASHINGTON, April 23, 1943—6 p. m.

A-434. Your A-575, April 14, 9:30 a. m., 1943. With regard to your point (4), might not various purely domestic gold clause cases be instituted under this precedent and are there not therefore many domestic interests which see eye to eye with the United Fruit Company?

Please inform the Department how soon the Court of Cassation's decision may be expected.

The Department is not prepared at the present time to make formal representations to the Costa Rican Government regarding a matter which is still before the Costa Rican courts. You may, however, proceed in the sense indicated in the Department's A-396 of April 3, 1943.

HULL

818.51/1081 : Airgram

The Chargé in Costa Rica (Reed) to the Secretary of State

SAN JOSÉ, May 5, 1943—10 a. m.

[Received May 10—2 p. m.]

A-616. Reference the Department's airgram No. A-434 of April 23, 1943, 6:00 p. m. According to an opinion furnished the United Fruit Company by a prominent local attorney and economist, internal emergency legislation protects certain debts incurred prior to December 17, 1931. However, according to this opinion, an unfavorable decision by the Court of Cassation would open the way for gold clause suits with respect to: 1) the external debt of Costa Rica; 2) obligations of coffee growers and other exporters where contracts were executed in "centavos oro americano"; 3) rental payments for real property stipulated in "centavos oro americano"; 4) other internal obligations executed in gold coin or with a "gold clause", and executed after December 17, 1931.

As an example of the type of obligation which might become the subject of suit in the event of an unfavorable ruling, one of the attorneys of the Fruit Company checked local mortgage records, and found, from a cursory examination, some twenty-six mortgages which might be held to contain gold clauses.

The attorneys for the Fruit Company point out that inasmuch as many of these mortgages were executed after 1933, and still use

the term "centavos oro americano", it is further proof of their contention that the phrase is generally used to mean United States currency and not a gold clause. Attorneys for the Company are looking into other types of internal transactions in order to determine what other types of case might be considered to constitute material for a gold clause suit, and I shall inform the Department of the result of their investigations.

It is expected that the decision of the Court of Cassation will be handed down about September 1.

A second appeal of the Fruit Company before the Appellate Section of the Supreme Court has also been handed down and was unfavorable to the Company, as was the first decision. The attorneys for the Company are preparing a digest of the opinion which I will forward to the Department as soon as it is available.

REED

818.51/1078

Memorandum by Miss Anna A. O'Neill, Assistant to the Legal Adviser (Hackworth), to the Assistant Chief of the Division of the American Republics (Cabot)

[WASHINGTON,] May 9, 1943.

MR. CABOT: I have studied the decision of the First Appellate Section of the Supreme Court at San José of March 23, 1943 in the so-called "gold clause" cases and find briefly the decision to cover the following points:

A. Two suits were instituted, one against the United Fruit Company of New Jersey and the other against the Compañía Bananera de Costa Rica, of Wilmington, Delaware. Both suits were for the collection of a sum of money due as the difference in the price of bananas received by said companies which difference is caused by the devalorization of the dollar.

The first suit against the United Fruit Company was for (estimated) the sum of six hundred thousand colones. (\$85,770.82 with interest in the amount of \$28,799.93.)

The second suit against the Compañía Bananera de Costa Rica "was estimated to be the same as that of the United Fruit" case. The Compañía Bananera de Costa Rica "acquired by purchase all of the properties of the United Fruit Company in Costa Rica and took charge of the business of purchasing and exporting bananas, which it did as amply as its predecessor had done". (Page 5 Decision.)

The decision dismisses both suits in so far as the United Fruit Company is concerned on the ground that after January 31, 1934 the Company did not receive bananas from the plaintiff and that,

therefore, it is not liable for deliveries made to "a separate concern" (the Compañía Bananera de Costa Rica, its successor in interest).

B. In the suit against the Compañía Bananera de Costa Rica the Court held first that:

1. In the execution of the contract of May 17, 1939 the Company by its terms provided that "all of the contracts prior to that date which the parties may have executed were cancelled by virtue of the fact of executing the new contract" did not *ipso facto* exonerate the contracting parties from the responsibilities which they may have incurred during its existence "in as much as it was not a clear and definite remission with respect to the matter". (Page 11.)

2. The Court held that Article 9 of the contract besides fixing the price in American gold cents permitted the purchaser to pay in drafts on New York or in money of the country at the rate of exchange at which the Bank of Costa Rica might purchase drafts of the same kind, thus instituting a "gold value clause". The Court held that the use of the word "gold" revealed the intention of the parties to establish a special guaranty clause and that its ordinary interpretation has called for computation by reference to the value of the gold contained in the money of the contract. The Court further stated that the gold clause "does not involve a rigid obligation to deliver coined money of a single monetary regime; it admits perfectly the alternative of paying in another money, but taking into account the value of the latter in relation to gold; and when this happens it is converted into a gold value clause, whether by agreement of the parties—as in this case—or by order of the judges in the event of impossibility of obtaining the metallic specie contemplated." . . .⁵⁴ In other words in accordance with the terms of the contract the purchaser could pay the value of the fruits in American gold colones, or its gold value in colones.

3. The company's contention that it made good payment of the price for fruit purchased after the reduction of the gold content of the American dollar with checks for the circulating money of the United States or with their equivalent in colones at the official exchange rate for such checks and invoked the joint resolution of 1934⁵⁵ and the laws passed in Costa Rica governing exchange control was not admitted. The Court held that the contract, which was executed and completed in Costa Rica, was governed by Costa Rican law "which in this case was the only one normally competent to fix the element of payment of the contract."

4. The agreement concerning foreign money in the contract on which the suit was based was valid in the Republic "when it was made, during the execution of the contract and now that its faithful fulfillment is demanded." It was further held that Costa Rican laws which provided for other regulation for the control of exchange and export of gold and foreign bills and drafts did not do away with the principle of the validity of stipulation in foreign money in contracts of this nature. The Court stated:

"Consequently in demanding of the purchaser the payment of the price in the foreign money agreed upon, taking into account the gold

⁵⁴ Omission indicated in the original memorandum.

⁵⁵ Presumably House Joint Resolution 192, approved June 5, 1933; 48 Stat. 112.

standard indicated beforehand by the contracting parties there is no violation of local public order because this does not go against the spirit of our monetary system which is, undoubtedly, that of maintaining the unit and identity of the colón in relation to itself, in any eventuality, through the diverse monetary types it may experience."

5. That when payment is made in a different money from that stipulated, Article 771 of the Costa Rican Civil Code orders that the former money be computed according to the commercial and real value which it may have at the moment of payment, in relation to the money owed. In this relation the Court stated:

"Now, when the contracting parties choose gold as the standard of value by their express will, the comparison between the money of the contract and that of payment must be made necessarily by reference to the value of gold contained in the one and the other of said moneys. If the debtor finds himself in the physical impossibility of paying the money agreed upon, because the latter is not in circulation, as happens here, and the gold agreement contracted is legally demandable here, the clause really operates as a gold value clause and the payment is made by means of the delivery of a number of units of the new system whose price corresponds to that of the gold units which are owed. To determine the depreciation of a money in relation to a gold base, it is necessary to refer to the premium of the metal, not only because of dealing with a gold value which is perfectly determinable, but because the implicit will of the parties is that the money of payment shall be equivalent to an amount of precious metal equal to that contained in the money of the contract. This criterion of parity of coinage performs a very important office in North American decisions, where it is warmly praised. Consequently, to establish the difference between two metallic systems, although one may be so in theory only, as in the present case, recourse is had to par of exchange 'which consists of putting into proper relation the precious metal content of the units, as shown by melting down the coins, and establishing the relation between the values of the moneys to that of the quantities of precious metal contained in them.' (Nussbaum *op. cit.* p. 111)."

6. The company was held to have failed to comply with its contractual obligations and "by way of damages" was ordered to pay interest at the rate of 6% per annum "from the date on which this judgment becomes final."

In conclusion the Court decreed

"That the Compañía Bananera de Costa Rica as successor in the business and properties of the United Fruit Company in this republic is obligated in the terms of the purchase-sale contract which serves as a basis for this suit, executed by the United Fruit Company the 21 of February, 1929; that the price of the bunches of bananas is fixed in this contract in 'cents American gold' and, consequently, the letters of exchange or the colones between which the purchaser might elect as means or form of payment, must be the commercial and real equivalent of the money of American gold expressed in the contract and contemplated on contracting; that after January 31, 1934 the weight of the American gold dollar was reduced and the Compañía Bananera de Costa Rica received from the plaintiffs the sum of 243,339 $\frac{1}{4}$ 'count' bunches, for which the former owes the latter the sum of

\$84,317.05, or its equivalent in colones at the official rate of exchange on the day on which payment is made, that is in relation to the weight of the money of gold stipulated and that of the money in which payment was made, the difference between the agreed price of the fruit delivered and the amount paid by the purchaser; that this same company owes plaintiffs, also, legal interest at six per cent per annum from the date this judgment becomes final and, besides the procedural costs of the suit which is declared to be proper. In all other respects the sentence appealed from is confirmed.”

The litigation before the Supreme Court covering the so-called “gold case” was discussed in some detail in my memorandum of June 2, 1942,⁵⁸ a copy of which was made available to you.

In view of the importance of the litigation pending in Costa Rica, I suggest that consideration be given as a matter of policy to transmitting a copy of the Costa Rican decision to the appropriate officials of both the Department of Justice and the Treasury Department for their information and comment.

It is possible that after the fruit company has exhausted its remedies in Costa Rica, the matter will again be referred to the Department in the form of a diplomatic claim, at which time the Department should have the benefit of the Government’s experts on this technical question.

818.51/1100: Telegram

The Ambassador in Costa Rica (Des Portes) ⁵⁹ to the Secretary of State

SAN JOSÉ, July 15, 1943—7 p. m.
[Received 10:59 p. m.]

537. Reference my telegram No. 536, July 15, 11 a.m.,⁵⁸ and Department’s airgram No. 396, April 3. The President has just informed me that the Supreme Court decision was favorable to the fruit company by a vote of 4 to 1 and that the decision will be made public early next week.

DES PORTES

818.51/1115

The Attorney General (Biddle) to the Secretary of State

WASHINGTON, September 7, 1943.

MY DEAR MR. SECRETARY: In accordance with your request, I am transmitting herewith a memorandum ⁵⁸ from Assistant Attorney

⁵⁸ Not printed.

⁵⁹ The Legation in Costa Rica was elevated to the status of Embassy on May 20, 1943, when Ambassador Fay Allen Des Portes, succeeding Minister Robert M. Scotten, presented his credentials to the Costa Rican Government.

General Shea,⁶⁰ commenting upon the decision of the First Appellate Section of the Supreme Court of Justice, San José, Costa Rica, dated March 23, 1943, in the case of *Irma Peralta Monge de Sosto v. United Fruit Co.*

In 1929, the owners of two farms in Costa Rica contracted to sell their banana output for a ten-year period to United Fruit Co., a New Jersey corporation authorized to do business in Costa Rica. The United Fruit Co. agreed to pay, for each standard bunch of bananas, fifty "centavos oro americano . . ."⁶¹ either in letters of exchange on New York or some accredited house in the United States . . . or in money of the country at the rate of exchange at which the Bank of Costa Rica may purchase letters of the same kind, on the day on which the price may be paid."

On January 31, 1934, the President reduced the weight of the gold dollar,⁶² pursuant to the Gold Reserve Law, from 25.8 grains to 15 $\frac{5}{21}$ grains of gold. During the period of some five years following this devaluation, the vendors delivered to Compañía Bananera de Costa Rica, a Delaware corporation which succeeded United Fruit Co., some 240,000 bunches of bananas for which Compañía paid the vendors some \$120,000 by means of bank checks, a part in colones (the Costa Rican monetary unit) and the rest in American dollars. The vendors' successor thereafter brought suit in the Civil Court of San José, Costa Rica, to recover an additional sum of some \$85,000, on the ground that payment was called for in the original gold dollar but had been made in a devalued dollar worth only about sixty percent of its former value. The court entered judgment for plaintiff, and the First Appellate Section of the Supreme Court affirmed.

There can be little doubt that the Costa Rican courts had jurisdiction of the controversy and of the parties. Any criticism of the decision must therefore be directed solely to its legal merits, and Assistant Attorney General Shea's memorandum discusses the decision from that aspect.

According to the *New York Times* of August 23, 1943, the Superior Court of Costa Rica—the court of last resort—has recently reversed the judgment, holding that the contract did not contain a true gold clause, and that since the Costa Rican colones had not appreciated with respect to the dollar the plaintiff had not suffered any appreciable damage. Since the final decision in this case is favorable to American business men who had entered into obligations to pay gold dollars in Costa Rica, the interest of your Department in the con-

⁶⁰ Francis M. Shea.

⁶¹ Omissions indicated in the original letter.

⁶² Action taken by Presidential Proclamation No. 2072, January 31, 1934. For text, see Department of State, *Press Releases*, February 3, 1934, p. 66, or 48 Stat. (pt. 2) 1730.

troversy may have terminated. However, in view of the fact that the principles involved in this litigation may arise in other countries in which American firms have undertaken similar contractual obligations, the enclosed memorandum from Assistant Attorney General Shea may prove of value.

Sincerely,

FRANCIS BIDDLE

818.51/1127

*The Assistant General Counsel of the Treasury Department (Luxford)
to the Acting Chief of the Division of the American Republics
(Walmsley)*

WASHINGTON, December 11, 1943.

DEAR SIR: Reference is made to your letter of June 2, 1943,⁶³ enclosing a copy of a translation of a decision of the First Appellate Section of the Supreme Court of Justice of Costa Rica, relative to litigation involving a "gold value clause" in contracts to which American firms are parties. I regret the unfortunate delay in replying to your letter.

This opinion has been carefully considered. It would appear that some of the statements contained therein, such as that the purpose of the Joint Resolution of June 5, 1933, was to increase the prices of agricultural commodities and that the purchasing power of the dollar was reduced after the monetary reforms at that time, may be inaccurate. However, it does not appear that these matters were essential to the decision reached by the court.

The fundamental conclusion that the contracts involved are governed by the law of Costa Rica would appear to be legally justifiable, and the fact that the Costa Rican court did not give effect to the Joint Resolution of June 5, 1933, as a matter of comity, is hardly subject to criticism in view of decisions of our own courts in cases involving similar statutes of other countries. See *Central Hanover Bank and Trust Company v. Siemens & Halske Akt.* (S. D. N. Y. 1936) 15 F. Sup. 927, *aff'd per curiam* (C. C. A. 2d 1936) 84 F. (2d) 993, *cert. denied* (1936) 299 U. S. 585; *Barnes v. United Steel Works Corporation* (N. Y. 1939) 11 N. Y. S. (2d) 161; *Deutsch v. Gutehoffnungshutte Akt.* (N. Y. 1938) 6 N. Y. S. (2d) 319; *Anglo-Continentale Treuhand, A. G. v. St. Louis South Western Ry. Co.* (C. C. A. 2d 1936) 81 F. (2d) 11, *cert. denied* (1936) 298 U. S. 655.

Very truly yours,

ANSEL F. LUXFORD

⁶³ Not printed.

CUBA

COOPERATION BETWEEN THE UNITED STATES AND CUBA REGARDING CERTAIN MILITARY MEASURES FOR HEMISPHERE DEFENSE¹

837.30/54

The Secretary of State to the Secretary of the Navy (Knox)

WASHINGTON, December 17, 1942.

MY DEAR MR. SECRETARY: I refer to Mr. Forrestal's^{1a} letter of December 5, 1942 enclosing draft of a proposed supplementary agreement for naval cooperation between the Cuban Navy and the Gulf Sea Frontier Command of the United States Navy.² It is observed from the letter that representatives of the Cuban Navy have indicated informally their approval of the proposed agreement, and it is suggested that the draft might be discussed during the visit of President Batista³ of Cuba.

Although it was not found convenient to discuss the proposed agreement with President Batista during his stay in Washington, the draft agreement was shown to the United States Ambassador to Cuba⁴ last week, and he indicated his readiness to take it up with the appropriate Cuban authorities on his return to Habana, probably the end of this week or the beginning of next week.

I shall be glad to keep you informed of any developments which are reported by our Embassy at Habana.

Sincerely yours,

For the Secretary of State:
SUMNER WELLES
Under Secretary

837.30/71

The Ambassador in Cuba (Braden) to the Secretary of State

No. 2113

HABANA, February 2, 1943.

[Received February 8.]

SIR: Referring to my telegram No. 70 of February 1, 4 [5] p. m.⁵ reporting the signing at noon yesterday of the Supplementary

¹ Continued from *Foreign Relations*, 1942, vol. VI, pp. 253-289.

^{1a} James V. Forrestal, Under Secretary of the Navy.

² Neither printed; in his letter of December 5 Mr. Forrestal explained that the enclosed draft agreement was being proposed with the purpose of effecting closer naval collaboration through the operation of a United States naval mission to Cuba and an over-all direction of Cuban naval forces by the United States Naval Commander of the Gulf Sea Frontier (Comgulf).

³ Fulgencio Batista y Zaldívar.

⁴ Spruille Braden.

⁵ Not printed.

Agreement for Military and Naval Cooperation, I have the honor to enclose the original signed texts in Spanish and English, together with copies thereof for the Department's use. The full powers⁶ issued by President Batista to the Minister of State⁷ is enclosed with the signed text of the Agreement. If the Department plans to prepare a printed text, I should appreciate receiving ten copies thereof for the use of this mission.

[Here follows a brief statement concerning the signature of the Agreement, the press release, and the omission in the Agreement of a clause considered by the Ambassador as vague and unnecessary.]

Respectfully yours,

SPRUILLE BRADEN

[Enclosure]

*Supplementary Agreement for Military and Naval Cooperation
Between the Governments of the United States of America and of
Cuba*

The Governments of the United States of America and of the Republic of Cuba concluded on September 7, 1942, an Agreement for Military and Naval Cooperation,^{7a} Article IV of which provides that the Governments of the United States of America and of the Republic of Cuba will act in mutual accord to adopt, from time to time, such supplementary revisions of said Agreement as may be necessary, or as may be indicated by experience, provided they are equally needed, to provide satisfactory procedure or regulations covering questions which may require additional clarification or improvement, including agreement as to details relative to the relationship and cooperation between the Armed Forces of the United States of America and of Cuba with respect to the execution of measures already agreed upon.

It being necessary for the most effective cooperation in the joint war effort to expand the Agreement for Military and Naval Cooperation dated September 7, 1942, the Governments of the United States of America and of the Republic of Cuba have agreed to enter into a Supplementary Agreement, and have for this purpose appointed as Plenipotentiaries:

His Excellency the President of the United States of America:
Spruille Braden, Ambassador Extraordinary and Plenipotentiary of the United States of America:

His Excellency the President of the Republic of Cuba:

José Agustín Martínez-Viademonte, Minister of State of the Republic of Cuba;

⁶ Not printed.

⁷ José A. Martínez-Viademonte.

^{7a} *Foreign Relations*, 1942, vol. VI, p. 283.

Who after having exchanged their Full Powers and having found them to be in good and proper form have reached an agreement with respect to the following articles :

ARTICLE I

Naval Cooperation

As a contribution to the successful prosecution of the joint war effort, the Government of Cuba shall authorize the Chief of the General Staff of the Cuban Navy to assign, on temporary duty and whenever the needs of the service so require, a number of surface vessels, commanded by officers of the Cuban Navy, for operation under the general direction of the Commanders of the Sea Frontiers of the United States Navy.

ARTICLE II

Logistic Support

The Commander of the Gulf Sea Frontier will be responsible for the logistic requirements of those Cuban vessels assigned for operations under his direction. By mutual agreement between the Commander of the Gulf Sea Frontier and the Chief of the General Staff of the Cuban Navy, fuel and supply depots will be established in Cuba at locations considered necessary for an efficient operation. Consumable supplies, including fuel and lubricants, furnished by the United States for the operation of Cuban vessels, shall be delivered to the Cuban Navy under Lend-Lease requisitions.

ARTICLE III

Method of Naval Collaboration

Naval collaboration between the Cuban Navy and the Commander of the Gulf Sea Frontier will be effected by means of a United States Naval Mission to Cuba. This Mission shall continue until cancelled upon the initiative of the Government of the United States or of the Government of Cuba.

ARTICLE IV

Composition and Personnel of the Mission

This Mission shall consist of a Chief of Mission with the rank of Captain or Commander or Lieutenant Commander on active service in the United States Navy and such other United States Naval personnel as it may be agreed subsequently to appoint to form a part of said Mission.

ARTICLE V

Duties, Rank and Privileges of Naval Mission Personnel

a) The Chief of the Naval Mission shall be attached to the General Staff of the Cuban Navy as technical advisor to the Chief of the General Staff of the Cuban Navy. In addition, the Chief of the Naval Mission shall be the representative of the Commander of the Gulf Sea

Frontier in all matters pertaining to Naval cooperation between the Naval Forces of the United States and of Cuba.

b) The personnel of the Mission shall perform such duties as may be agreed upon between the Chief of the General Staff of the Cuban Navy and the Chief of the Mission.

c) Each member of the Mission shall serve thereon with the rank he holds in the United States Navy, and wear the uniform thereof.

d) Each member of the Mission shall be entitled to all privileges and benefits which the Cuban Regulations provide for Naval officers and enlisted personnel of corresponding rank.

e) The personnel of the Mission shall be governed by the disciplinary regulations of the United States Navy and shall be responsible solely to the Chief of the Mission in disciplinary matters.

f) All expenses in connection with the Naval Mission shall be paid by the United States.

g) The Government of Cuba will provide suitable office space for the use of the members of the Mission.

h) Without prejudice to this Agreement, the personnel of the Naval Mission may be ordered to additional duty on the Staff of the Commander of the Gulf Sea Frontier.

i) The Government of Cuba through the medium of the Minister of the Treasury shall issue pertinent orders for exempting articles imported into Cuba for their personal use by members of the Naval Mission from the payment of Cuban customs duties and other fees and charges, and for the free circulation of their automobiles.

ARTICLE VI

Duration of the Agreement

This Supplementary Agreement shall become effective immediately and its duration, without prejudice to the provisions of Article III, shall be the same as that of the Agreement for Military and Naval Cooperation concluded between the Governments of the United States of America and of the Republic of Cuba on September 7, 1942.

Done and signed in duplicate, in the Spanish and English languages, in the City of Habana, on this first day of February in the year nineteen hundred and forty-three.

For the President of the United States of America :
(SPRUILLE BRADEN)

*Ambassador Extraordinary and
Plenipotentiary of the
United States of America*

For the President of the Republic of Cuba :
(J. A. MARTÍNEZ)
Minister of State

837.30/74

*Memorandum by Mr. George F. Scherer of the Division of the
American Republics*⁸

[WASHINGTON,] March 6, 1943.

The Embassy at Habana has submitted for the Department's consideration an additional draft agreement⁹ with Cuba (in effect are agreements of June 19, 1942;¹⁰ September 7, 1942;¹¹ February 1, 1943¹²) which has been found necessary to iron out several minor problems. The draft has received general approval in the Cuban Ministry of State, although it is likely that it may suggest some specific changes.

The purpose of this agreement is to broaden the scope of certain articles of previous agreements and to include such new commitments as may be desirable. The summary that follows may be helpful in indicating the suggested changes from existing agreements.

Col. D. B. Wilson¹³ has suggested that the War Department might wish to draft, for inclusion, an article bringing up to date the use and purpose of the Batista Airport at San Antonio de los Baños, since it is no longer to be used for training British bombardment crews. I am endeavoring to send copies of the draft agreement to Col. Wilson and to Navy.

The Embassy has suggested possible revision of Article XII of the agreement of June 19, 1942, which provides for a *joint* United States-Cuban claims commission, to conform to United States Act of January 2, 1942,¹⁴ providing for settlement of foreign claims not over \$1,000 by a *unilateral* United States Commission. Mr. Yingling of LE¹⁵ is already familiar with this matter and his ideas on adjusting the apparent existing conflict will be most helpful.

The Embassy's draft requires the exchange of full powers, which I hope may be avoided as I feel the subject matter does not warrant reference to the White House. Furthermore, Article IV of the Agree-

⁸ Addressed to Philip W. Bonsal, Chief of the Division of the American Republics, and Willard Barber of the same Division, and to Orme Wilson, Department Liaison Officer. Notation by Mr. Barber at end of memorandum reads: "Comment: There are 3 agreements already, the most recent on Feb. 1, 1943; (1) I do not see that it is necessary to have another equally formal document now. (2) The Cubans do not seem to have asked for it. (3) The exchange of notes could accomplish most of the desired ends. (4) It does not appear necessary for the claims and tax exemptions to be held so secret. W. Barber".

⁹ Dated February 25, 1943; transmitted to the Department in Embassy's despatch No. 2314, February 26, not printed.

¹⁰ *Foreign Relations*, 1942, vol. VI, p. 267.

¹¹ *Ibid.*, p. 283.

¹² *Supra.*

¹³ Donald B. Wilson, Latin American Branch of the Theater Group of Operations Division, War Department General Staff.

¹⁴ 55 Stat. 880.

¹⁵ Raymund T. Yingling, Assistant to the Legal Adviser.

ment of September 7, 1942, provides specifically for supplementary revisions of the agreement.

U-L¹⁶ may wish to arrange a meeting of the interested persons once they have had an opportunity to study the text.

TOPICS FOR NEW AGREEMENT

Suggested Commitment

Present Commitment

Free Entry (Art. I)

Cuba, through its Treasury, to exempt from duties:

- (a) 1. Materials, etc. for U.S. military and naval forces;
- 2. Personal effects of U.S. personnel attached to U.S. military or naval units;
- 3. Goods consigned to U.S. official institutions—U.S.O., etc.
- (b) Consular fees not required on U.S. military or naval projects and other projects considered necessary to war effort.
- (c) Permit bonded shipments to Guantánamo through any Cuban port.

Art. IV—Agreement of June 19, 1942—Free entry of materials and personnel [*personal?*] effects for San Antonio de los Baños zone.

Art. II—Agreement of September 7, 1942—Free entry of materials consigned to U.S. Government or official agency thereof.

Art. V—Agreement of February 1, 1943—Exemption for Naval Mission personnel as in (a) 2, plus free circulation of their automobiles.

Art. VII—Agreement of June 19, 1942—No fee or tax chargeable for motor vehicles (U.S. or belonging to San Antonio de los Baños personnel).

Comment—The underlined phrase of (b) above appears to include other than strictly military and naval projects (such as Nicaro Nickel Co. for example) and should therefore be deleted, as improperly included in a secret military-naval agreement.

Section (b) refers to consular fees (*facturas consulares*), which means, I judge, that exemption from both the fee and the invoice itself is anticipated.

Paragraph (c) is excellent as the present procedure of requiring direct shipment to U.S. Naval Operating Base at Guantánamo from United States is cumbersome. I would like to see this arrangement made permanent.

Suggested Commitment

Present Commitment

Taxation (Art. II)

Exemption from direct taxes for U.S. armed forces and civilians engaged in construction or operation of U.S. military or naval projects.

Art. V—Agreement of June 19, 1942—Same as in suggested commitment, but limited to S A de los Baños zone.

¹⁶ Department Liaison Officer, assistant to the Under Secretary of State.

Communications (Art. III)

Establishment and operation of essential U.S. military communications for military and naval units in Cuba.

Art. VIII—Agreement of June 19, 1942—Same as in suggested commitment but limited to S A de los Baños zone.

Art I (*e*)—Agreement of September 7, 1942—Authorization of military communications establishment for shore detachments only.

Military Jurisdiction (Art. IV)

U.S. military and naval personnel committing offenses against Cuban law to be tried and punished by U.S. military and naval authorities.

Art. IX—Agreement of June 19, 1942—Fugitives in zone but not belonging to it to be delivered to Cuba. Fugitives belonging to zone to be delivered to U.S. authorities.

Comment—This suggested article should have, I expect, careful study as it refers to matters of civil and criminal jurisdiction and departs definitely from the present commitment. I believe the suggested form would be satisfactory to War and Navy.

*Suggested Commitment**Present Commitment*

Post Office Facilities (Art. V)

Extension of facilities for use of all U.S. military and naval units and personnel in Cuba.

Art. X—Agreement of June 19, 1942—U.S. Post Office established at San Antonio de los Baños.

837.30/78 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, May 24, 1943—5:35 p. m.

[Received May 26—4 p. m.]

A-998. Reference Embassy's despatch No. 2314 of February 26, 1943.¹⁷

Prime Minister ¹⁸ and Foreign Minister ¹⁹ on April 22 indicated interest in concluding supplementary agreement for military and naval cooperation as soon as possible. Only difference between draft proposals of Embassy and Foreign Office relates to question of military jurisdiction. While I doubt that Cuban Government would be willing to sign a formal agreement giving jurisdiction to our military authorities in Cuba (as proposed in Article IV of our draft proposal,

¹⁷ Not printed.

¹⁸ Ramón Zaydín.

¹⁹ Emeterio Santovenia replaced José A. Martínez-Viademonte as Foreign Minister on March 6.

copy of which was enclosed with Embassy's despatch No. 2314) all cases against United States soldiers and sailors have, thus far, been quashed in the courts and our military and naval authorities have taken pertinent disciplinary action. Prime Minister and Foreign Minister will probably seek to continue this policy, thus giving us in effect—but not by formal agreement—the jurisdiction which we desire.

I should appreciate therefore receiving early instructions from Department so that negotiations may be resumed while Prime Minister and Foreign Minister are interested and are disposed to look with favor on most of the proposals made in our draft.

BRADEN

837.822/20 : Airgram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, June 25, 1943—1:55 p. m.

[Received June 28—4 p. m.]

A-1256. Buoys, lights and other aids to navigation in a number of Cuban harbors are either missing or functioning irregularly. Naval Attaché²⁰ has been trying for many months to have Cuban Navy improve the situation but without success. Ambassador sent long memorandum²¹ on this subject to Prime Minister on May 28 but despite latter's many promises no action has been taken.

Ambassador and Wilcox,²² WSA representative in the Embassy, discussed this matter recently in Washington with Admiral Land²³ (see memorandum of conversation dated June 9, 1943²⁴ copy of which was forwarded to Embassy by Department) and it was agreed that WSA would make available materials, etc. for the replacement of markers, utilizing the technical assistance of Admiral Weyler,²⁵ Commandant of the United States Naval Operating Base at Guantánamo Bay.

After the return of Wilcox from Washington I wrote to the Prime Minister under date of June 19²¹ stating that the United States Government would install these aids to navigation if agreeable to the Cuban Government. The Prime Minister has now consented and Admiral Weyler is sending an officer to survey Nuevitas Bay where the situation is most urgent.

Wilcox sent telegram HAB 112 on June 18²¹ to Westerlund,²⁶ WSA, Washington, to request Commandant of Coast Guard to instruct sur-

²⁰ Col. Hayne D. Boyden.

²¹ Not printed.

²² M. L. Wilcox, Director, Caribbean District, War Shipping Administration.

²³ Emory S. Land, Administrator, War Shipping Administration.

²⁴ Memorandum by George F. Scherer of the Division of the American Republics, not printed.

²⁵ Adm. George Weyler.

²⁶ W. N. Westerlund, Assistant Deputy Administrator.

vey vessel now at Guantánamo Bay to remain here under Weyler's direction to assist survey and installation of markers and buoys. Westerlund has just replied stating that survey vessel comes under jurisdiction of Hydrographic Office and suggesting that Weyler make formal request to Navy Department, which is being done.

I should greatly appreciate it if Department would discuss this matter with WSA and Navy Department with a view to insuring early action as the case is urgent. Liberty vessels cannot at present enter Nuevitas Bay with any safety and similar situation exists at other ports, which will be surveyed as soon as possible.

BRIGGS

837.30/74

The Secretary of State to the Chargé in Cuba (Briggs)

No. 1875

WASHINGTON, June 30, 1943.

SIR: The Department again refers to the draft supplementary agreement for military and naval cooperation between the United States and Cuba submitted with the Embassy's despatch no. 2314 of February 26, 1943.²⁷ With the exception of Article IV which relates to military jurisdiction and was covered by its instruction no. 1574 [1754] of June 5, 1943,²⁸ the Department approves the agreement. It also has the approval of the War and Navy Departments.

It is suggested that there be substituted for the article on military jurisdiction an article relating to claims reading as follows:

ARTICLE IV

Claims

All claims for damages to persons or property of Cuban nationals resulting from acts of members of the armed forces of the United States in Cuba shall be submitted to a Claims Commission established in accordance with the Act of Congress of the United States approved January 2, 1942 (Public Law 393—Seventy-seventh Congress), as amended by the Act approved April 22, 1943 (Public Law 39—Seventy-eighth Congress²⁹). This article shall supersede Article XII of the Agreement for Military and Naval Cooperation, signed at Habana June 19, 1942.

Article XII of the 1942 agreement is objectionable because it is confined to claims of a particular category instead of including all claims arising out of acts of members of the armed forces and because the Department cannot by executive agreement clothe a joint commission with jurisdiction to settle definitively claims against the United States of the kind referred to. Provision for the settlement

²⁷ See footnote 9, p. 139.

²⁸ Not printed.

²⁹ 57 Stat. 66.

of claims for injury to persons or property of inhabitants of foreign countries by members of the armed forces of the United States has been made in the Act of Congress approved January 2, 1942, as amended by the Act approved April 22, 1943. These Acts provide for the establishment of military claims commissions to adjudicate and settle such claims. Some time ago the War Department suggested that we endeavor to have the Cuban Government consent to the abrogation of Article XII because it did not feel that it could legally appoint persons to membership on the joint commission or make payment of its awards. Under the amended Act, claims up to \$5,000 in amount can be settled without reference to Congress and the Secretaries of War and Navy are authorized to certify to Congress for payment claims in excess of that amount.

It would seem that these Acts of Congress provide a more expeditious and satisfactory method of settling claims than the joint commission provided for in the 1942 agreement. It would, of course, be open to Cuba to decline to accept offers of settlement by the military claims commissions or by the Secretaries of War or Navy and to present the claims through diplomatic channels. In view of the experience of the claims commissions in other countries, however, it is believed that there will be no occasion for presenting diplomatic claims. Individual claimants are, of course, free to accept or reject the commission's awards and any legal remedies open to them in the courts are not interfered with.

Since the proposed Article IV is broader in scope than the article in the 1942 agreement and awards made under it in cases under \$5,000 can be promptly paid from available funds without reference to Congress, it is believed that the Cuban Government will have no difficulty in appreciating the superior merits of such an arrangement.

It is suggested that the form of the supplementary agreement be changed. The Department sees no necessity for an exchange of full powers and feels that the arrangement might appropriately take the form of a note addressed by the Embassy to the Minister of State setting forth the several articles and concluding with a statement that if these articles are acceptable to the Cuban Government, a note from that Government so stating would be regarded as placing the agreement in effect. An alternative method would be to incorporate the agreement in a single document to be signed by the Ambassador and the Minister of State on behalf of their respective Governments. Whichever procedure is preferred by the Cuban Government might be followed.

The following changes in the text of the proposed agreement are suggested. Replace "Agreement of September 7, 1942" in Article I

by "Agreement for Military and Naval Cooperation between the Government of the United States of America and the Government of the Republic of Cuba signed at Habana, September 7, 1942". Replace "Government of Cuba" or "Cuban Government" wherever used by "Government of the Republic of Cuba". Replace "United States Government" wherever used by "Government of the United States of America". Replace "United States" and "Cuba" wherever used by "United States of America" and "The Republic of Cuba". In Article V after "cooperation" insert "between the United States of America and the Republic of Cuba".

Very truly yours,

For the Secretary of State:
A. A. BERLE, JR.

837.20/279

The Ambassador in Cuba (Braden) to the Secretary of State

No. 3948

HABANA, August 5, 1943.
[Received August 9.]

SIR: I have the honor to refer to the Embassy's despatch No. 3916 of July 24, 1943,³¹ on the subject, "Industrial Areas in Cuba to be declared War Zones". The decree mentioned in the last paragraph of this despatch has now been published in the *Official Gazette* No. 424 of July 26, 1943, and copies are enclosed herewith.³²

This decree will enable the Cuban Government to set up a security zone for the Nicaro Nickel project,³³ a course of action desired by the Department and by the Embassy for some months past. The decree, however, is very much more extensive than would have been required by the Nicaro project alone and places in the hands of the Government potential control over the economic life of the country. The Embassy, in the course of its repeated representations to the Prime Minister and other officials of the Government, has been careful to stress the fact that our Government is—at least for the present—interested in the creation of a security area only at Nicaro and that the possibility of providing military control over other areas is one to be decided entirely by the Cuban Government.

Respectfully yours,

For the Ambassador:
GARRET G. ACKERSON, JR.
Secretary of Embassy

³¹ Not printed.

³² Decree No. 2154, not reprinted.

³³ A defense plant being constructed at this time by the United States Government to supply nickel and related materials, under the direction of the Metals Reserve Company.

837.30/88

The Ambassador in Cuba (Braden) to the Secretary of State

No. 4432

HABANA, September 8, 1943.

[Received September 13.]

SIR: I have the honor to refer to the Department's instruction No. 1754 of June 5, 1943³⁴ in regard to the incorporation of an article covering military jurisdiction over members of the armed forces of the United States in Cuba in the draft supplementary agreement for military and naval cooperation between the United States and Cuba submitted with the Embassy's despatch No. 2314 of February 26, 1943.³⁴

The attitude of the Prime Minister and the Minister of State, as recently expressed informally, is to the effect that as a practical matter, taking into consideration the Cuban Constitution and treaty procedure, it would be preferable not to include an article on military jurisdiction over members of the armed forces of the United States in Cuba in the draft supplementary agreement for military and naval cooperation between the United States and Cuba or to reach an agreement independently on the subject by an exchange of notes but rather to continue the *status quo* in force. Up to the present time, there has been little difficulty encountered with respect to the prompt surrendering to the competent American military or naval authorities for adjudication of their cases of members of the armed forces of the United States whom the Cuban authorities have detained. The present arrangement, therefore, appears satisfactory to both the American and Cuban Governments and consequently the Embassy is taking no further action in the matter at this time.

Respectfully yours,

SPRUILLE BRADEN

837.711/111 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, September 20, 1943—7 p. m.

868. Your A-1815, September 1, 8:30 a. m.³⁴ The President has allocated to the Department, from the appropriation entitled "Emergency Fund, for the President, National Defense, 1942-1944"³⁵ the amount of \$150,000 to be expended by the Department in connection with emergencies affecting the national security and defense, for reimbursement to the Government of the Republic of Cuba for all necessary expenses incident to the establishment and maintenance of postal censorship of the mails in Cuba during the fiscal year 1944.

³⁴ Not printed.

³⁵ Appropriation Acts, 1942, 1943, and 1944; 55 Stat. 682, 813, 818; 56 Stat. 394, 704, 995; 57 Stat. 432.

Formal request for funds for the censorship of the telegraph, cables, and radio in Cuba, including broadcasting, will be submitted to Budget in the very near future.

HULL

'837.30/89 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, October 4, 1943—10:20 a. m.

[Received October 7—3 p. m.]

A-2051. Reference Department's airgram 2232, September 17, 1943.³⁶

As Article XII of Agreement for Military Cooperation signed June 19, 1942 refers only to Batista Airport at San Antonio de los Baños, Embassy is of the opinion that claims resulting from explosion in Habana Harbor on February 6, 1943 can be considered under the Act of January 2, 1942 as amended April 22, 1943.

As joint Cuban-American Claims Commission contemplated by Article XII of Military Agreement of June 19, 1942, has never been set up and as informal conversations with a high official of the Ministry of State have indicated that changes contemplated by Department's undated instruction no. 1875³⁷ would be difficult for Cuban Government to accept because of their unilateral nature, Embassy recommends that negotiations on this point be dropped and that claims be handled under Acts of Congress referred to above. Embassy contemplates no great difficulty for claims resulting from our activities at Batista Airport, particularly if cases are considered expeditiously and payments are made promptly. As Department has pointed out in its instruction no. 1875, the regular legal remedies (including, presumably, diplomatic processes) remain open to claimants who do not wish to follow procedure provided by these Acts of Congress.

As most of the problems originally contemplated for solution by means of a supplementary agreement have now been resolved by direct negotiations with Cuban authorities, Embassy does not now contemplate negotiating supplementary agreement referred to in Embassy's despatch no. 2314 of February 26, 1943³⁶ and the Department's undated instruction no. 1875. The question of uniformed Cuban personnel proceeding to the United States without passports and visas (see Embassy's airgram 1884, September 8, 9:50 a. m.³⁶) can doubtless, if authorized by Department, be handled by exchange of notes.

BRADEN

³⁶ Not printed.

³⁷ Dated June 30, p. 143.

837.30/89: Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, October 18, 1943—7:10 p. m.

A-2382. Your A-2051, October 4.

Department is aware that claims arising out of explosion of Army barge in harbor of Habana can be considered under the Act of January 2, 1942, as amended, and that they do not fall within jurisdiction of the Claims Commission provided for in Article XII of Agreement for Military Cooperation of June 19, 1942. However, this Government desired to obtain agreement of Cuban Government to submission of all claims for damages arising from acts of members of the armed forces of the United States in Cuba to Commissions provided for in the Act of January 2, 1942. If Cuban Government is not agreeable to such an arrangement, this Government does not desire to press the matter, and the War Department advises that it will proceed to set up a Commission under the Act of January 2, 1942 to consider Cuban claims. However, the existence of Article XII of the Agreement of June 19, 1942 is an impediment to the exercise by such a Commission of jurisdiction over claims within the purview of Article XII. For this reason and, since the obligations undertaken in Article XII cannot be carried out, this Government considers its abrogation imperative. You will, therefore, please endeavor to obtain the consent of the Cuban Government to such abrogation.

HULL

837.711/120

The Ambassador in Cuba (Braden) to the Secretary of State

No. 4898

HABANA, October 25, 1943.

[Received November 2.]

SIR: I have the honor to refer to the Department's airgram no. A-2323 of October 6, 1943,³⁹ concerning the submission of statements from the Military, Naval and Legal Attachés and the Cable Censorship Liaison Officer, to constitute positive justification before the Bureau of the Budget for an allocation of funds assisting the inauguration and operation of cable, telegraph and radio censorship in Cuba. The statements requested are enclosed herewith.⁴⁰

I can not fail to take this further opportunity of stressing the importance of closing this gap in the censorship of communications which, as may be seen from the enclosures, is necessary both from the negative and positive sides of censorship. I recommend also that the earliest possible action be taken to make the requisite funds available.

Respectfully yours,

SPRUILLE BRADEN

³⁹ Not printed.⁴⁰ None printed.

837.711/121

The Ambassador in Cuba (Braden) to the Secretary of State

No. 4937

HABANA, October 28, 1943.

[Received November 2.]

SIR: I have the honor to refer to the Embassy's despatch no. 4898 of October 25, 1943 regarding the desirability of United States financial assistance to Cuban cable, telegraph and radio censorship and to despatch no. 4879 of October 23, 1943⁴¹ concerning the collection and distribution of Communist propaganda.

From various confidential sources the Embassy has learned of the widespread use of the mails for the transmission of Communist plans and there is a strong presumption that telecommunications may also be used to this end. As the danger of the transmission of such material is patent, I consider its identification of the highest importance, and that this constitutes an added reason for the use of United States Government funds to inaugurate and operate cable censorship in Cuba.

Respectfully yours,

SPRUILLE BRADEN

837.30/90 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, October 30, 1943—10:25 p. m.

[Received November 2—1 p. m.]

No. A-2193. Reference Department's airgram no. 2382, October 18, 7:10 p. m., file no. 837.30/89. The Embassy does not share the opinion that the abrogation of Article 12 of the Agreement for Military Cooperation of June 19, 1942 is imperative. Apparently a Commission can be set up under the Act of January 2, 1942 to consider Cuban claims in general, despite the existence of Article 12. Should a claim arise to which Article 12 is applicable and an amicable settlement not be obtainable, I am of the opinion that the subject might then be reviewed. Possibly this contingency may never arise. By initiating action, I fear that it may invite from the Cuban Government requests for other modifications.

The Ministry of State has shown no disposition to consider favorably the article on claims contained in the Department's undated instruction no. 1875;⁴² therefore only Cuban claims freely submitted to it may be considered by a Commission set up under the Act of January 2, 1942.

It is hoped therefore that the Department will reconsider the position set forth in airgram no. A-2382 and agree to dropping for the time being the project of negotiating a supplementary agreement.

⁴¹ Not printed.⁴² Dated June 30, p. 143.

Settlement has been reached on almost all other matters which it was originally planned to cover in a supplementary agreement.

Should the Department desire additional information in the premises, it is suggested that Ackerson ⁴⁵ now on leave in New Jersey might be directed to consult on the subject prior to his return to Habana. He is very well informed on the details of this problem and has my entire confidence.

BRADEN

837.711/125 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, December 15, 1943—9 p. m.

[Received December 16—12 : 59 a.m.]

834. Except for minor inaccuracies Braga's memorandum ⁴⁶ (which we did not have until today) reference Department's telegram 1052, December 14, 4 p.m.⁴⁷ and instruction 2649, December 11 ⁴⁷ paints a true picture which we are reporting fully by despatch. (With respect to the general problem please see my despatch no. 5206, November 22.) ⁴⁷

Since receipt of Department's telegram 868, September 20, 7 p. m. authorizing allotment of \$150,000 to assist in Cuban postal censorship I have been endeavoring and hoping against hope from day to day to reach an agreement with the Prime Minister and other Cuban authorities which would insure effective and honest expenditure of these funds which they would of course be glad to have if we were willing to turn them over without any strings attached. This I will not do.

(It is pertinent to observe that allotment of monies from President's special fund for purposes of internment was promptly granted and this program is now functioning effectively. Unfortunately the delay of over a year in granting similar allotment (which was requested at same time) for purposes of postal censorship has given Cuban officials opportunity to discover what a rich field for graft this is.)

It now seems apparent that some of these authorities have concluded that our collaboration in this highly important war effort might impede blackmail and sale of information now practiced in the Cuban censorship office as well as the graft in purchases and in rackets (and it certainly would bring the details of these rackets to our knowledge). They are unwilling to forego these illicit per-

⁴⁵ Garret G. Ackerson, Jr., Secretary of Embassy in Habana and Liaison Officer on military and naval affairs.

⁴⁶ Memorandum of November 25 by Lt. B. Rionda Braga, United States Cable Censorship Liaison Officer at Habana, not printed.

⁴⁷ Not printed.

quisites, despite the fact that they have been informed and are aware of the great value of censorship in our mutual war effort.

In the light of the foregoing, unless there very soon is a complete about-face by the Cuban authorities, I will recommend that our offer to assist financially be withdrawn.

Also I am studying and will report so [as] soon as possible whether the services of Major Keller ⁴⁸ and his two assistants, valuable though they have been, should be continued here in the light of the shocking conditions prevailing and the entire disinclination of the censorship chief to cooperate with him. Also in this matter there is a limit beyond which we cannot go with dignity. Similarly I will consider recommendations in respect to retention of Braga or his replacement.

Therefore, under the aforescribed circumstances nothing should be done in respect to our participation in cable censorship, at least until the Cuban censorship situation has been cleaned up to our entire satisfaction. As a result of an altogether unsatisfactory conversation with Castillo,⁴⁹ head of censorship here, on December 10, I am not at all sanguine that this can be done.⁵⁰

BRADEN

**AGREEMENT BETWEEN THE UNITED STATES AND CUBA DEFINING
THE MILITARY SERVICE DUE BY NATIONALS OF EACH COUNTRY
RESIDING IN THE OTHER**

[For text of the agreement effected by exchange of notes signed at Washington November 6, 1942, January 9, 1943, and February 1, 1943, see Department of State Executive Agreement Series No. 321, or 57 Stat. (pt. 2) 960.]

**DISCUSSIONS AND AGREEMENTS RELATING TO THE 1943 AND 1944
CUBAN SUGAR CROPS ⁵¹**

837.61351/3537

Memorandum by the Adviser on Political Relations (Duggan) ⁵²

[WASHINGTON,] January 13, 1943.

I call to your attention the attached airgram ⁵³ from our Embassy

⁴⁸ Maj. Fred B. Keller, United States Postal Censorship Liaison Officer, stationed in Habana May 31, 1942, to February 19, 1944.

⁴⁹ Eugenio Castillo y Borges.

⁵⁰ A memorandum by Major Keller summarizing the Cuban postal censorship program from June 1942 to January 1944, transmitted to the Department with despatch No. 6060 of February 21, 1944, reported that the Embassy was notified by the Cuban Government on December 31, 1943, that the United States subsidy of \$150,000 had been rejected (837.711/141).

⁵¹ For preliminary discussions and arrangements concerning the purchase of the 1943 crop by the United States, see *Foreign Relations*, 1942, vol. vi, pp. 315 ff.

⁵² Addressed to the Secretary of State and to the Under Secretary (Welles).

⁵³ Not printed.

at Habana regarding the sugar negotiations, which I think you will wish to read in its entirety.

These negotiations appear to have been singularly unsuccessful in convincing the representatives of the Cuban sugar industry of the justice of the proposal advanced by this Government.⁵⁴

It is interesting to observe that the Cuban Government representatives neither supported nor rejected the views of the industry as expressed at the meeting with President Batista.⁵⁵

The situation boils down to the fact that the Cuban Government is being so strongly pressured by a special-interest group that it is unable to deal with the problem on the merits. The question confronting this Government is how far should we depart from a proposal which in its broad outline is equitable in order to permit the Cuban Government to satisfy the large appetites of the sugar interests. This is a very real problem because it is other United States Government agencies which are putting up the money in this deal. If our "final" offer is to be substantially improved I believe very careful thought should be given as to the best way to obtain the acquiescence of the agencies which will be required to advance greater funds of money.

LAURENCE DUGGAN

837.61351/3559 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, January 20, 1943—4 p. m.

[Received 8:58 p. m.]

40. For the Secretary and the Under Secretary. Department's telegram number 88, January 19, 9 p. m.⁵⁶ As heretofore reported my conversations pursuant to Department's telegram number 4, January 2, 7 p. m.,⁵⁷ disclosed that our proposals made in Washington would be summarily rejected as they stood and that such a development would greatly weaken Batista and his Government, cause his trip to the United States to be considered an utter failure and increasingly affect

⁵⁴ For text of the proposal of December 17, 1942, see *Foreign Relations*, 1942, vol. vi, p. 339.

⁵⁵ A meeting held from 9 p. m., January 10, to 3:30 a. m., January 11, at the Presidential Palace, attended by President Fulgencio Batista y Zaldívar, Prime Minister Ramón Zaydín, Minister of State José A. Martínez-Viademonte, President of the National Development Commission Amadeo López Castro, García Montes (presumably Oscar García Montes, former Minister of Finance), and three representatives of the sugar industry, members of the Cuban Sugar Commission recently returned from Washington.

⁵⁶ Not printed.

⁵⁷ Not printed; this telegram outlined the two modifications which purported to improve for Cuba the terms of the molasses purchase and of the subsidy of inland transportation of sugar to unnatural ports (837.50/154).

our relations with Cuba and create a serious or even potentially dangerous political situation here.

However, the Prime Minister by constructive suggestions (the first made by any Cuban since negotiations began last November) indicated his Government's desire to work out a definitive counter-proposal within the general framework of our offers. To this end he requested my good offices before the Department in order to give him cards to play vis-à-vis the industry and my assistance in bringing the *hacendados*⁵⁸ and *colonos*⁵⁹ into line.

After consultation with the Department and Duggan's agreement by telephone that I "was proceeding on the right track" we have arrived at a concrete counterproposal as described to Walmsley⁶⁰ yesterday (see my telegram number 37, January 19, 9 p. m.⁶¹) and in previous communications which should apply to the situation mentioned in first paragraph above and elicit enthusiastic acceptance and gratitude of Batista and his Government. In this way while realizing that some of the Cuban exactions for modification of our Washington proposals may prove unacceptable to the Department and other agencies of our Government, I have with the termination yesterday of our talks here—and pending my receipt of what will be our final offer—obtained for the first time a clear definition of exactly what are the Cuban maximum aspirations. Moreover I have protected our position by:

1. Repeatedly declaring to the Cubans that my conversations were informal and that I had no instructions from Washington other than to request the Cuban Government's reply to our only official proposals which were those brought back by the Cuban delegates.
2. Keeping all suggested modifications within the financial limitations of our Washington proposals so that any additional expenditures which might be undertaken by us as a result of my talks here not only remain well within the 12,000,000-dollar saving effected through the proposed elimination of the stockpile but mean a saving for us of probably \$12,300,000 or more.

I understand from Walmsley that within a few days I may expect instructions to present to the Cuban Government a last "take it or leave it" proposal. In view of tense atmosphere existing throughout the island and of our desire to assist Batista Government to maintain a tranquil, stable situation socially and politically I respectfully suggest that I be afforded an opportunity to comment on this proposal before it is presented. Also it would probably be useful for me to receive

⁵⁸ Sugar mill owners.

⁵⁹ Cane producers.

⁶⁰ Walter N. Walmsley, Jr., Assistant Chief of the Division of the American Republics.

⁶¹ Not printed.

rush by courier the intercepts ⁶² referred to in the third paragraph of your message.

For the convenience of the Department I am summarizing by separate telegram the position reached as a result of discussions here and I, of course, appreciate that acceptance thereof (following the procedure outlined in my telegram no. 28, January 14, 2 p. m., ⁶³ sections 1 and 2) is a matter of policy having in mind all the aspects of the situation.

BRADEN

837.61351/3607

Memorandum by the Chief of the Division of the American Republics (Bonsal) ⁶⁴

[WASHINGTON,] January 26, 1943.

Ambassador Braden telephoned at 12:40 today with regard to the sugar proposal embodied in our airgram of yesterday. ⁶⁵ He stated that he was very much depressed at the terms of our latest proposal. In particular, he felt that the price of \$2.55 proposed by us would be most adversely received by the Cubans—both the Government and the industry.

The Ambassador stated that he questioned the wisdom of presenting this proposal to the Cubans at all. He said that it would undermine President Batista and that the Prime Minister would undoubtedly have to resign. The Ambassador proposed two alternatives:

(a) Our current proposal with a \$2.65 price. He said he believed he could put this across and get the President's support.

(b) A proposal based upon the Ambassador's suggestions of the past few weeks, i.e., 2,700,000 at \$2.65 with 300,000 tons of free sugar subject to a stock pile contribution in the event of an inter-American agreement on the subject.

I explained to the Ambassador the difficulties of our situation here in relation to the other agencies. I stated that I would submit his suggestions to you.

⁶² Intercepts of telephone and other communications between Habana and New York.

⁶³ Not printed; in this telegram the Ambassador suggested that outstanding points of contention be resolved through informal negotiation between himself, the Prime Minister, and the sugar producers, and that the resulting compromise be submitted first, informally, to the Department for approval and then, if acceptable, embodied in a formal Cuban counterproposal to the Department's proposals of December 1942 (837.61351/3555).

⁶⁴ Addressed to the Under Secretary of State (Welles) and to the Adviser on Political Relations (Duggan).

⁶⁵ Airgram No. A-713, January 25, not printed; in this airgram the Department summarized for the Ambassador a modification of its December 17 proposal, and indicated its readiness to accept from the Cuban Government a "firm counterproposal" embodying the several alterations itemized therein (837.61351/3626a).

(Personally, I have, as you know, questioned the desirability of the \$2.55 price contained in the latest BEW-CCC ⁶⁶ proposal. I believe that we should attempt, on purely political grounds to secure the consent of these agencies to the \$2.65 price. The Ambassador stressed that "the situation is very bad".)

The Ambassador also mentioned two minor points:

(1) He said that he had understood from our 50 of January 9 ⁶⁷ that we would consent to assume storage and insurance charges after June 30, 1944, whereas our current proposal gives December 31, 1944 as the date when we take over these expenses.

(b) [(2)] In referring to our ceiling price proposal or escalator clause, the Ambassador indicated the desirability of assurances on our part that we would not give away the sugar which we are buying. I suppose that what he has in mind is that we will sell it through normal channels and not use it for relief purposes, the result of which might be to eliminate the possibility of any profit which would later be handed over to the Cuban Government and people. I made it very clear that there was no thought of turning over any profit directly to the sugar industry—I believe he is in full agreement on this point.

PHILIP W. BONSALE

837.61351/3608

*The Under Secretary of State (Welles) to the Ambassador in Cuba
(Braden)*

WASHINGTON, January 27, 1943.

DEAR SPRUILLE: I enclose herewith a letter for delivery to President Batista at the same time that you discuss with him our final sugar proposal. I understand of course that this will not be done until we are able to give you final clearance from here.

Sincerely yours,

[SUMNER WELLES]

[Enclosure]

*The Under Secretary of State (Welles) to the President of Cuba
(Batista)*

WASHINGTON, January 27, 1943.

DEAR MR. PRESIDENT: I have, as you know, given the most careful personal study to the problem of Cuba's 1943 sugar crop which has occupied the attention of our two Governments during the past few weeks. I am confident that the proposal made last December met all

⁶⁶ Board of Economic Warfare and Commodity Credit Corporation; the latter was a corporate agency of the United States Government, authorized to purchase the Cuban sugar crop.

⁶⁷ *Foreign Relations*, 1942, vol. VI, p. 342.

the reasonable requirements of the situation. However, since that date, I have given further consideration to the matter, with the result that Ambassador Braden has now been authorized to indicate to you certain modifications of our original proposal which, if proposed by the Cuban Government, would be acceptable to this Government.

The proposal as it now stands provides for the expenditure in Cuba of approximately \$150,000,000 on a commodity which, because of conditions with which you are fully familiar, cannot be used directly in the war effort of the United Nations. I recognize, of course, that it is fully consistent with the cooperative relationship which has so happily existed between our two countries for this Government to be of assistance at this time. However, the immense and constantly-increasing burdens which the people of the United States are being called upon to bear and the sacrifices of every variety which we must all make render it impossible to justify an expenditure greater than that which will suffice to maintain employment and living conditions in Cuba on a war-time basis.

I am confident that your statesmanlike vision of the world situation which I had the pleasure of again confirming on the occasion of your visit here last month will enable you fully to comprehend the problem with which our two Governments are now confronted and to lend your full support to the proposal which Ambassador Braden will outline to you.

Believe me, my dear Mr. President,

Yours very sincerely,

[SUMNER WELLES]

837.61351/3626e : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, January 28, 1943—9 p. m.

127. We have had encouraging conversations with representatives of the other agencies with respect to the proposal submitted in your telegram no. 58, January 27, 7 p. m.⁶⁸ as amplified by the modification suggested in paragraph no. 1 of telegram no. 59.⁶⁸ If you can obtain a firm counterproposal on the basis submitted in your two telegrams under reference with certain minor modifications, which comes from the Government and has the support of the sugar interests, the prospects of its acceptance here are not unfavorable. The other agencies have reached the point, however, where they are unwilling definitely to clear another proposal unless they know that this proposal will be presented formally by the Cuban Government as its counterproposal.

⁶⁸ Not printed.

The Department shares their view. Moreover, this procedure is exactly that which you have been advocating and operating on.

To all intents and purposes, the proposal that is outlined hereafter is the same as that outlined in your telegrams under reference which you say in your opinion "would stand a good chance for endorsement by the Cuban Government". We have confidence that you will be able to induce both the Government and the industry to get together on this proposal and present it ⁶⁹ on a firm basis without any modifications. We feel that this proposal, which represents considerable improvement in the general conditions surrounding the arrangement, meets the needs of the situation, for which reason we would be unwilling to suggest any modifications to the other agencies. In other words, this proposal is not subject to any further negotiation as far as this Government is concerned.

1. 2,700,000 short tons to be purchased by the United States at 2.65, within reach of ship's tackle, provided the labor and port conditions ⁷⁰ stipulated in our proposal of December 17 are met by the time the grinding begins and are confirmed by a note from the Cuban Government.

2. The industry may produce up to 300,000 short tons of "free" sugar, without any assistance from the United States. Before selling any of this sugar, the United States will be given an opportunity to purchase. The marketing of this sugar will be limited to world markets and to the rate of 100,000 tons per semester beginning from the date of the first shipment of United States owned 1943 sugar, except by prior agreement between the two Governments.

3. The crop will be limited to 3,225,000 short tons and the United States will offer no objection to the industry's exporting to other markets than the United States that portion of the local production quota of 225,000 short tons which exceeds actual Cuban needs (the marketing of this sugar shall be limited as in point 2 above, so that the "free" sugar sold in any one semester will not surpass 100,000 short tons).

4. From the production of 300,000 tons of free sugar, the sugar industry will donate 100,000 tons, without cost, to a United Nations pool for relief purposes, if constituted.

Please clarify in this connection for the Cuban Government and industry that the relief pool idea is a United Nations, not an inter-American, one. The United States and Great Britain and some of the Dominions have long been planning such a pool of consumer commodities to relieve the peoples of the world who have been suffering privations and hardships at the hands of the enemy, as these peoples are liberated. It is hoped that all of the United Nations will contribute in accordance with their individual means and abilities. No inter-American agreement or action is either contemplated or required in order to constitute this pool or stockpile.

5. The United States will advance to the sugar industry 90 percent

⁶⁹ The proposal was presented by Ambassador Braden to Prime Minister Zaydín on January 29.

⁷⁰ Methods of speeding the loading of sugar in Cuban ports.

of the purchase price on June 30, 1943 on such sugars as are stored at port terminals; and 90 percent minus transportation costs to normal ports, on sugars at *batey*.⁷¹

6. The industry will bear all costs such as warehousing, insurance, et cetera, of carrying unshipped sugar, until June 30, 1944. From July 1, 1944 the United States will assume these charges, with the exception of loss of weight and polarization which will continue for the account of the industry. The Cuban Government will keep warehousing charges when assumed by the United States at a level no higher than that paid by the industry.

7. The escalator clause continues as proposed in our memorandum of December 17,⁷² section 4, (a), (b), and (c), but the provision to the effect that the transaction is not entered into for purposes of profit, as described in point 4 of our airgram 713,⁷³ shall be added.

8. The offer of the Defense Supplies Corporation for molasses remains as stated in point 2 of the Departments telegram no. 4, January 2, 7 p. m.⁷⁴ If the Cubans do not agree to the molasses terms, the DSC offer is withdrawn. However, in the latter case, this Government insists on a firm assurance from the Cuban Government and industry not to ditch 1942 United States Government-owned molasses.

9. With respect to excess costs of movement of sugar to other than natural ports, point 3 of the Department's airgram of January 25 stands.

10. An exchange of notes shall be effected, as stated in point 7 of our airgram of January 25.

11. All the stipulations of our memoranda of December 17 and December 8, 1942,⁷⁵ in so far as they are not affected by the foregoing, shall be understood to prevail.

HULL

837.61351/3626f : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, January 29, 1943—6 p. m.

132. From Duggan. Your 60, January 27, 9 p. m.⁷⁶ If the Cubans should reach the conclusions you describe with respect to our proposal in telegram 127 of January 28, 9 p. m., it would reveal a fundamental misunderstanding of the premises on which this proposition was based (and for that matter, although this is academic, that in airgram 713 of January 25⁷³). Although it would be fruitless to enter discussions with the Cubans of the relative merits of earlier proposals, it seems advisable to emphasize the following important factors underlying our January 28, in as much as the type of calculations you fear the Cubans may

⁷¹ Sugar mills.

⁷² *Foreign Relations*, 1942, vol. VI, p. 339.

⁷³ See footnote 65, p. 154.

⁷⁴ Not printed.

⁷⁵ For latter, see *Foreign Relations*, 1942, vol. VI, p. 337.

⁷⁶ Not printed; in this telegram the Ambassador illustrated the opinion that according to his figures Cuba would receive less under the January 25 proposal in airgram No. 713 than under the proposal of December 17, 1942. (837.61351/-3603)

make can have a bearing on your presentation and the Cubans' understanding of this final proposition.

Our calculation is based on the following premises:

1. Given a constant wage rate, the mill cost of producing 3,225,000 tons of sugar is a constant, regardless of what detailed arrangement is entered into with the United States.

2. Variable costs to the producers are those connected with internal transportation, warehousing, et cetera.

3. Therefore, the only figures that can properly be discussed are the total dollars to be paid to the producers by the United States and any variable costs mentioned in point 2.

Important variable costs which have been modified favorably to Cuba in both our airgram no. 713 and telegram no. 127 include:

1. The elimination of the \$5,000,000 liability for abnormal inland transportation. If this were to be compared with December 17, the improvement is even greater, as there was no limit in the December 17 proposal to Cuba's liability. It will be recalled that the producers calculated this cost at 23 points.

2. The termination date of responsibility for warehousing and insurance carried by the Cuban producers. Formerly there was no termination of this liability. A-713 set the termination date as December 31, 1944. Our no. 127, January 28, set it at June 30, 1944.

3. The Cubans always preferred crop financing which would have given them the opportunity to speculate on the entire crop. All our previous proposals have been designed to prevent speculation and stabilize price. We now concede the Cubans an opportunity to speculate with a portion of the crop.

4. These calculations also ignore the possible return to the Cuban Government and people in the event that any net profit is made by the Commodity Credit Corporation.

5. It is also to be pointed out that on January 2 this Government increased its offer for molasses over that made on December 17. Our present proposal maintains the January 2 offer as optional if the Cuban producers wish to accept it.

In sum, we have precisely defined the variables and have transferred the burden to ourselves of the major portion of these; so that there can be absolutely no justification of the calculations and conclusions that you say may suggest themselves to the Cubans. [Duggan.]

HULL

837.61351/3640 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, February 9, 1943—10 p. m.

[Received 10:13 p. m.]

96. For Duggan. My airgrams numbers 254 and 260 of February 6.⁷⁷ The Prime Minister has just submitted to me a revised and official

⁷⁷ Neither printed.

memorandum ⁷⁸ in the precise form suggested to him last Friday. It submits as a formal counterproposal the provisions set forth in the Department's telegram No. 127, January 28, 9 p. m. (except relative to molasses offer which is declined, the definite earmarking of 100,000 tons for relief and the segregation, 375 tons for refined sugar and the syrups), the respective paragraphs being followed by parenthetical statements in the form of "Expressions of hope". The revised memorandum concludes with an annex covering (a) the Cuban Government's molasses proposal and (b) a request that consideration be given to liquidating the 1942 crop by March 15 next.

[Here follows a description of the additions and modifications that appear in the Prime Minister's revised memorandum.]

BRADEN

837.61351/3646 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, February 10, 1943—9:05 a. m.

[Received February 12—10 a. m.]

A-276. For Duggan. My telegram No. 96, February 9, 10 p. m. There follows the text of the revised memorandum (Cuban counterproposal) handed me by Zaydín yesterday evening:

"1. The Cuban Government in view of the results obtained in the negotiations begun in Washington in November 1942 for the sale of sugar of the 1943 crop can now with the agreement of the Cuban producers present to the Government of the United States of America a proposal definitely making possible the aforesaid operation in accordance with the bases for a contract outlined as follows:

"This memorandum entirely replaces the memoranda of December 5, 8, and 17, 1942,⁷⁹ the note delivered in Washington on January 1 of this year,⁸⁰ since it comprises all the essential questions covered in the course of these negotiations in an effort to solve the problem, in the desire of the Cuban Government to agree upon the operation referred to.

[Here follow the remaining 13 points and 2 parenthetical statements referred to in telegram No. 96, printed *supra*.]

BRADEN

⁷⁸ This memorandum, partially printed *infra*, is the revision of an informal proposal discussed by Prime Minister Zaydín and Ambassador Braden on February 5 and quoted at length in airgram A-254.

⁷⁹ Memorandum of December 5 not found in Department files; for memoranda of December 8 and 17, 1942, see *Foreign Relations*, 1942, vol. VI, pp. 337 and 339, respectively.

⁸⁰ Not found in Department files.

837.61351/3653

The Ambassador in Cuba (Braden) to the Secretary of State

No. 2181

HABANA, February 10, 1943.

[Received February 15.]

SIR: I have the honor to enclose a memorandum ⁸¹ prepared by the Counsellor ⁸² relative to the sugar negotiations conducted by our Government between September 1942 and the present, particularly with respect to the various obstacles which retarded the reaching of an agreement. These obstacles may be summarized as follows:

1. Failure of the Cuban sugar industry to face the realities of 1943. This was influenced in considerable measure by the large profits made in 1942, and by the resistance of many producers to accepting the inevitability of smaller profits in 1943.

2. Efforts by a substantial group of *hacendados*, especially those with a large speculative investment in cane, to torpedo the negotiations. These efforts were seconded by the Opposition, which sought throughout the negotiations to embarrass the Government and to make political capital out of the delays and the fact that the terms inevitably would be less attractive than in 1942.

3. Timidity, vacillation and lack of vigor on the part of the Cuban Government contributed greatly to the difficulties of the situation.

The primary obstacle in my opinion was the attitude of the Cuban producers, who fought tooth and nail to retain in the 1943 agreement provisions which our Government accepted last year but which in the light of war developments, especially transportation difficulties, we did not feel in a position to assume in 1943. In some ways it is difficult to find excuses for the attitude of the Cuban sugar industry in general, while the activities of certain *hacendados* were extraordinarily short-sighted and dangerous, particularly with respect to their influence on fundamental Cuban-American relations.

On the other hand the Cuban disposition to live from day to day, the psychology inherent in a one-crop country and the still prevailing—despite continuous educational efforts by the Embassy—lack of war consciousness have made it more difficult for the Cubans to recognize the cold facts of the existing situation. Also we must regretfully admit that they have been misinformed and misdirected by some of the Americans interested in sugar and who should have known better. It is pertinent to observe that these American interests never called at the Embassy to inquire as to the facts surrounding the negotiations nor much less to proffer their cooperation in a self-evidently difficult situation which might adversely affect our rela-

⁸¹ Not printed.

⁸² Ellis O. Briggs.

tions. On the contrary, some of the most acrid denunciation of the United States Government policy emanated from these people (see my despatch no. 2055 of January 26⁸³). Similarly statements issued by the press and by bulletins in the United States were harmful.

On the basis of the present outlook, the negotiations relative to the 1944 crop should be by no means so difficult as those for the 1943 crop, since the anticipated carryover should exert a sobering influence on producers, who should become increasingly alive to need for accepting sacrifices, and moreover the procedure and conditions to be incorporated in the 1943 contract should, by reason of their inclusion this year, with far less difficulty be accepted by the Cubans next year. Finally, the exaggerated optimism which resulted in so much planting during the latter months of 1941 and the early part of 1942, is notably absent at the present time, and we should therefore not have to contend a year hence with the allegations so interminably reiterated in connection with the 1943 negotiations that we had "encouraged" Cuba to plant as much cane as possible.

I realize that the extent of our future requirements depends to an important degree on the production of sugar in continental United States, and that the difficulty of obtaining labor, particularly in the beet fields, may result in a considerably smaller continental crop than was envisaged a few months ago. I assume that this possibility has been discounted in connection with estimates on which our present purchases are being made, since few things would cause us to be ridiculed more, with a resultant adverse general effect on our sugar relations with Cuba (and hence on our general relations) than a reversal similar to that which occurred in the progressive scaling-down of our requirements estimates from March to September, 1942.

With respect to the 1944 crop negotiations themselves, it is suggested that if they be held in Washington they be undertaken by a smaller American Government group, and that they be pushed more intensively than was possible during November and December of last year. I believe the complaint of the Cuban Government against being faced by a "regiment of American negotiators" has some justification and that should a Cuban commission proceed to the United States in the latter part of this year, it would be better to have the American negotiators number not more than three or four persons, under the chairmanship of an official of the Department of State.

Respectfully yours,

SPRUILLE BRADEN

⁸³ Not printed.

837.61351/3657 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, February 13, 1943—9 p. m.

201. Your A-276, February 10, 9:05 a. m. The Cuban counterproposal has been carefully studied by the interested Government agencies. You are requested to present to the Cuban Government a memorandum, of which the text is quoted hereafter. As will be seen after reading this text, the two Governments are in accord on the principal features of the proposed sale of the 1943 crop. It is fair to say that there is not only an agreement in principle on all of the important points essential to a satisfactory arrangement but there is also substantial agreement on what ultimately will be various clauses in the contract. It has been felt necessary, however, in order to avoid future complications in connection with the drafting of the contract to rephrase certain paragraphs of the counterproposal presented by the Cuban Government. This has been deemed desirable in order (a) to make certain paragraphs conform more exactly to what at least has been our understanding of the outcome of earlier discussions and (b) to set forth our point of view with respect to certain paragraphs that appear for the first time in any proposal, such as the paragraphs on direct-consumption sugar and the quota for producers of syrup.

In as much as the principal features of this deal have now been agreed upon, the best procedure would seem to be for appropriate representatives of the two Governments and of the Cuban Sugar Stabilization Institute to meet together and, on the basis of the Cuban counterproposal as amended and clarified by our memorandum, to draft the text of the contract. Any other procedure, such as the continued exchange of memoranda, seems not only unnecessary but also inefficient. It is therefore proposed that the Cuban representatives proceed to Washington at the earliest possible moment for the drafting of the contract.

[Here follows text of the memorandum referred to above.⁸⁴]

⁸⁴ This memorandum was presented to the Cuban Government with Embassy's note No. 202 of February 15. In reply, the Cuban Minister of State (Martínez) in note No. 481 of February 22 listed several desired alterations but acknowledged his Government's agreement with the Department's view that the time had arrived for the drafting of the 1943 crop purchase contract (837.61351/3672).

837.61351/3733

*Memorandum by the Chief of the Division of the American Republics
(Bonsal)*⁸⁵

[WASHINGTON,] February 23, 1943.

Ambassador Braden telephoned me late yesterday evening to tell me that he and Zaydín had agreed on a statement regarding the sugar negotiations. He read it to me over the telephone and I gave him the Department's approval. The statement is very brief and is not completely satisfactory. It refers to the fact that "certain details remain to be clarified" and states that representatives of the Cuban Government and of the Institute are coming to Washington for the purpose of drawing up the definitive contract. It gives the quantities of sugar to be made, but makes no mention of the stock pile. It also mentions diversification and the public works program.

The Ambassador tells me that López Castro^{85a} and Oscar García Montes for the Government and Arturo Mañas⁸⁶ for the Institute will make up the Cuban Delegation in Washington.

There seem to be two principal points of difference remaining between ourselves and the Cubans:

(1) The question of naming a maximum amount for the stock pile contribution, and

(2) The question of whether the roughly 39,000 tons required for the manufacture of syrup can be made by the few mills which manufacture syrup in addition to their quotas under the allocation of the 3,225,000 ton crop or whether they must manufacture the syrup from their normal quotas. I am rather inclined to favor the Cuban contention, since during the last seven or eight years, these mills have manufactured (a) their quota of raw sugar in accordance with Decree-law 522 and (b) their share of the sugar syrup quota. If we now refuse to allow them to manufacture the equivalent of 39,000 tons of raw sugar into syrup over and above their raw sugar quotas, these mills will be comparatively much harder hit by the curtailment of production than other mills.

PHILIP W. BONSAI

⁸⁵ Addressed to the Under Secretary of State (Welles) and to the Adviser on Political Relations (Duggan).

^{85a} Amadeo López Castro, President of the Cuban National Development Commission.

⁸⁶ Consulting lawyer for certain large sugar producers in Cuba and representative of the Cuban sugar industry's interests.

837.61351/3762 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, March 19, 1943—2 p. m.

[Received 3:48 p. m.]

163. I suggest that López Castro be informed that in view of the failure of the Cuban Government to promulgate the decrees covering respectively sugar-loading conditions⁸⁷ and railroad rates,⁸⁸ we are not in a position to sign the crop sale contract.

As the Department knows assurances in the premises were made weeks ago, fulfillment has been clearly understood to be an integral part of the over-all arrangement, and I have repeatedly urged the Prime Minister to act. The failure of the Cuban Government to take action has already largely vitiated the benefit in so far as the 1942 carryover is concerned, that is, we have shipped at last year's rates over half a million tons and propose in any case not to move through other than natural ports any large proportion of the balance. Moreover 1943 sugars are now ready to move.

BRADEN

[The purchase agreement on the 1943 Cuban sugar crop was signed in Habana on April 3, 1943, by Prime Minister Zaydín, José M. Casanova,⁸⁹ and Gastón Godoy, representing the Cuban Sugar Stabilization Institute, and by Ambassador Braden for the Commodity Credit Corporation. This agreement (not printed) covered the procurement, inland transportation, warehousing, insuring, testing, financing, and shipment of 2,700,000 English short tons of raw sugar purchased outright at 2.65 cents per pound, f. o. b.⁹⁰ in Cuban ports, and provided for the purchase of additional sugar by special option and of 7,970,558 gallons or less of high test sugar syrups.]

⁸⁷ In despatch No. 2626, March 31, the Ambassador informed the Department that Decree No. 892 satisfactorily covering sugar loading conditions was promulgated in the *Gaceta Oficial* of March 24, 1943. A copy of the decree was transmitted with the despatch (837.61351/3800).

⁸⁸ Decree No. 1252, promulgated in the *Gaceta Oficial* of April 22, 1943, implemented a commitment made in the exchange of notes at the time the 1943 sugar contract was signed, namely to reduce by about 50 percent the cost to the United States Government of moving purchased sugar within Cuba.

⁸⁹ Chairman of the National Association of Sugar Mill Owners of Cuba and member of the Board of the Institute.

⁹⁰ The expression "f.o.b." (free on board) means, in this agreement, "free alongside vessel within reach of ship's tackle," in accordance with the usual practice in the Cuban sugar trade.

837.61351/3908a : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, May 28, 1943—5 p. m.

624. From Brown,⁹¹ CCC. You are requested to make a firm offer to the Cuban Sugar Stabilization Institute for the 300,000 tons of free sugar produced in Cuba during the 1943 crop,⁹² under the same terms as governed the purchase of the 2,700,000 tons. If accepted you are authorized to exchange letters immediately so that June first payment can include this sugar, providing that the Institute can issue proper identity certificates by that date. [Brown.]

HULL

837.5122/4

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3747

HABANA, July 8, 1943.

[Received July 13.]

SIR: Referring to my despatch No. 3653 of July 1, 1943⁹³ summarizing certain agricultural proposals recently submitted by Minister of Agriculture Martínez Saenz to the Junta Económica de Guerra,⁹⁴ and in particular to Martínez Saenz' proposed discriminatory treatment of administration cane,⁹⁵ (as well as to the Prime Minister's general endorsement of the eventual elimination of administration as an objective), I have the honor to report that during a conversation with Dr. Arturo Mañas yesterday he expressed the hope that the American Government will see fit to include the protection of administration cane as a point in any negotiations looking toward the purchase of 1944 sugar.

Mañas explained that the Martínez Saenz' plan would in his opinion ruin the United Fruit Company enterprise, and likewise dislocate production at some of the General Sugar Estates mills (notably Central Vertientes). The attack on administration cane, according to Mañas, is unjustified, not only because the lands were acquired in good faith, and at fair prices, but because estates such as those of the United Fruit Company represent the most economical and efficient way of growing cane which has yet been developed in Cuba. Furthermore, in view of our expressed interest in seeing Cuban sugar costs reduced,

⁹¹ Courtney Brown, vice president of the Commodity Credit Corporation.

⁹² The Purchase Agreement on the 1943 sugar crop authorized the production of 300,000 short tons of raw sugar for sale in world markets, and granted to Commodity Credit Corporation an option on its purchase.

⁹³ Not printed.

⁹⁴ The Cuban equivalent of the United States Board of Economic Warfare.

⁹⁵ Cane grown on large estates owned by individuals (*hacendados*) or corporations that also controlled the means of converting that cane into sugar or its byproducts.

administration cane should receive our support on general economic grounds, as well as because of the American interests involved.

Mañas went on to say that on the return to Cuba of Dr. Ramiro Guerra ⁹⁶ he proposes to obtain the Cuban Government's endorsement of an investigation and report by Dr. Guerra on the large administration cane holdings. Guerra has the general confidence of the industry, as well as of Amadeo López Castro, and in Mañas' opinion a report on the "real factors involved" should tend to clarify the issues.

According to Mañas, López Castro, through his influence with the President, is the key to the administration cane problem and that while López Castro's views concerning "social trends" remain somewhat advanced, López Castro agrees with Mañas that an examination of the problem should include consideration of "cañifundios", that is, the very extensive holdings of large *colonos*, where Mañas believes that general living conditions are markedly inferior to those on administration cane lands of the large American companies.

It will be recalled that an expression of opinion with regard to administration cane was made during the last sugar negotiations, but that nothing definite came of it. I remain of the opinion that the subject will constantly be agitated by Cuban officials, including those who (like Aurelio Alvarez) are not exactly disinterested. I likewise believe that the agitation against administration cane is generally indicative of a social current which shows no sign of slackening, and finally that the recent Martínez Saenz' proposals, together with the attitude of the Prime Minister in the matter of Central Tinguaro (please see despatch No. 3745 of July 8, 1943 ⁹⁷) indicate the extent of the earthquake which must affect the relations between the Cuban Government and the sugar industry, before the latter can be placed on the really low-cost-of-production basis that the Cuban climate and soil should warrant.

Respectfully yours,

ELLIS O. BRIGGS

837.61351/4085 : Telegram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, July 12, 1943—8 p. m.

[Received 11:29 p. m.]

462. López Castro, Casanova and Mañas broached the subject of sugar negotiations ⁹⁸ to me last Saturday evening indicating that in their opinion it would be desirable to hold such negotiations as soon as possible thus giving stability to the local economic situation and if

⁹⁶ Ramiro Guerra y Sanchez, Deputy of the Cuban Government attending the Inter-American Advisory Economic Financial Committee meetings in Washington.

⁹⁷ Not printed; for details concerning Central Tinguaro, see pp. 197 ff.

⁹⁸ Negotiations on the 1944 crop.

possible avoiding having the size and price of the 1944 crop become a Cuban political football. I consider their reasons valid.

With respect to the Department's telegram No. 712 of July 10, 6 p. m.⁹⁹ (received subsequent to the discussion mentioned above) López Castro called on me this morning. He stated on behalf of President Batista that the latter is likewise of the opinion that the negotiations should be undertaken at an early date and that the Cuban Government is prepared either to send a mission to Washington or to receive a mission here whichever our Government prefers. However, Batista desires the "official initiative" to appear to come from us in the form of a note to the Foreign Office. I see no objection to this procedure and suggest that I be instructed accordingly.

BRIGGS

837.61351/4100

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3848

HABANA, July 17, 1943.

[Received July 21.]

SIR: With reference to my telephone conversations with Mr. Scherer¹ on July 15 and 16, 1943 relative to the forthcoming sugar negotiations, I have the honor to enclose for the confidential information of the Department a copy of a memorandum⁹⁹ of my conversation with Prime Minister Zaydín and Sr. López Castro on July 15, 1943. In this connection I also enclose a copy of my note⁹⁹ to the Minister of State² informing him that our Government is agreeable to beginning negotiations in Washington on July 26 next.

The Department will note that during my conversation with the Ministers they expressed themselves as optimistic that an agreement can be reached at an early date (which the Cuban Government obviously much desires), and that I raised as a possible obstacle to the speedy conclusion of an agreement the difficulties encountered this year with the loading of vessels at Cuban ports.

The Cuban argument against the sale of sugar on a delivered-aboard-vessel basis I do not find in the least convincing, and I wish to recommend that serious consideration be given to the desirability of making our purchase on that basis.

There is no single item in the 1943 operations which has caused anything approaching the difficulty experienced in endeavoring to expedite the efficient handling of ships at Cuban ports. This subject

⁹⁹ Not printed.

¹ George F. Scherer of the Division of the American Republics.

² Emeterio Santovenia, who succeeded José Martínez-Viademonte on March 6, 1943.

has been an almost daily matter of discussion and argument between Ambassador Braden and me on the one hand, and the Prime Minister, the Minister of Labor³ and Sr. López Castro on the other. It has no less occupied the attention of our War Shipping Administration representatives in Habana, with Cuban Labor Department officials, the Cuban Maritime Commission, labor leaders, terminal operators, et cetera. The favorable results obtained with respect to movement of sugar have in my opinion been due largely to these constant efforts on the part of the Embassy, often against very tenacious opposition from the Cubans. Furthermore, Cuban shipping charges are exceedingly high, and in my opinion Cuban port workers are by no means ill paid. While admittedly they went through a difficult period in the latter part of 1942 and early 1943, and while at certain ports (notably Cienfuegos) the laborers have shown a thoroughly patriotic attitude, it should not be forgotten that Cuban port workers received a subsidy during their idle period, and that the picture of abnegation and patriotic self-sacrifice painted by the two Cabinet Ministers appears to me to be somewhat overdrawn.

I am not unmindful of the fact that the Embassy's present suggestion was considered during the last negotiations, and opposed by War Shipping Administration on the grounds that it might interfere with agency arrangements for the handling of vessels, an argument the validity of which I consider at least debatable.

As to the Ministers' assertions concerning the difficulties between maritime labor and the sugar interests, terminal operators, the Government, et cetera, which they argue would follow adoption of my suggestion, I do not believe these statements are indicative of anything more than reluctance to modify the business-as-usual arrangements under which the Cuban sugar industry is trying to operate. Furthermore, if the maritime labor situation is as explosive as Zaydín maintains, that should in my opinion be all the more reason for our Government to avoid becoming involved (as we have had to become involved incessantly during the past six months) in that situation.

To my mind there is no valid reason why the Cuban Government should not itself (if it does not desire to have the matter handled by the Institute) establish a fund into which would be paid the amount paid by us, representing the cost of handling and placing aboard ship, and I perceive no valid reason why, at a time when we are apparently prepared to commit ourselves to purchase many millions of dollars worth of Cuban sugar, thereby supporting the economy of the entire country, we should not do so on terms which should greatly minimize our operational problem.

³ José Suárez Rivas.

I hope therefore that the Department will give renewed consideration to this suggestion, which I may add is endorsed by the Habana representatives of War Shipping Administration.

Respectfully yours,

ELLIS O. BRIGGS

837.61351/4113

The Chief of the Division of the American Republics (Bonsal) to the Vice President of the Commodity Credit Corporation (Brown)

WASHINGTON, July 28, 1943.

DEAR COURTNEY: I was delighted to hear from George Scherer of the successful start of the sugar negotiations. My friend Dr. Guerra, with whom I talked on Monday afternoon, expressed greatest satisfaction with the way in which things were going.

Larry⁵ and I and the rest of us in the Department who have been concerned with sugar matters, together with the Embassy in Habana, would like to be of the greatest possible assistance to you in your difficult and delicate task. I would suggest, therefore, that before written proposals or memoranda are handed to the Cuban Delegation the Department be given an opportunity to comment. With regard to the memorandum⁶ which I understand was handed to the Cuban Commission yesterday, I have the following observations:

(1) "*Bibijagua*" Sugar. As you know, this is sugar produced by certain mills illegally. Generally the producing mills are near centers of consumption to which the sugar is rapidly and clandestinely moved to avoid local taxes. This type of sugar cannot move outside of Cuba. It seems to me neither practical nor desirable for us to ask the Cuban Government and the Sugar Institute for any commitments in this matter. They are just as interested as we are in restricting its production. It will not be possible for anyone to establish in a legal manner the production of this illegal sugar. Therefore, I propose that this question be approached through (a) joint agreement as to the amount of sugar to be produced for local consumption and (b) a definite limitation on the amount of excess local consumption which we will buy for export. I feel strongly that the approach suggested in the memorandum which was handed to the Cubans could be considered as a reflection upon the industry and as an undue interference in domestic Cuban affairs.

(2) *The Size of the Crop*. I feel strongly that an endeavor should be made to fix the size of the crop finally and definitively prior to the beginning of the grinding season. For a variety of practical reasons, it would be unfortunate for uncertainty as to the ultimate size of the crop to prevail during the grinding season itself. Certainly we are not going to be able to make any exact adjustment

⁵ Laurence Duggan, Adviser on Political Relations.

⁶ Not printed.

between production and shipping and I hope and believe that by January 1 you will be in a position to give a final figure confirming the preliminary figure at which I understand you now wish to arrive.

(3) *Storage*. It is my own opinion, supported by the views of a number of sugar people with whom I have spoken, that storage facilities in Cuba can be adapted and additional facilities provided to take care of almost any foreseeable amount of sugar. Therefore, I suggest that in our discussions with the Cubans the size of the crop be related entirely to shipping facilities, with little or no emphasis on the question of storage except to establish appropriate responsibilities.

(4) *End of Grinding*. I note that on page four of your memorandum you indicate the possibility that the grinding season may not have terminated by June 1. It is, in my judgment, highly unlikely that many mills, regardless of the size of the crop, will be able to grind after June 1.

(5) *Petroleum Requirements*. I think it should be brought out to the Cubans as emphatically and clearly as possible that we expect and require their cooperation in the matter of conservation of petroleum products and the conversion of the industry as far as possible to other fuels, if we are to attain the relatively large sugar production which we are willing to underwrite.

Ambassador Braden feels strongly that it would be desirable to arrange for the 1944 sugar to be delivered f.o.b. the vessel instead of f.a.s., as has been the case, as I understand it, in 1942 and 1943. I think that this matter warrants a careful exploration with Ambassador Braden and I suggest that, unless you have already done so, you discuss this with Mr. Norregard.⁷ In other words, I do not feel we should take War Shipping's mere say so on this without a careful investigation.

I was in the process of dictating the above when we had our telephone conversation this morning. I do hope that you will find it possible to emphasize to the Cubans that the memorandum handed to them yesterday is not a considered expression of the official views of this Government, but is rather to be considered, as you put it, an informal agenda to serve as a basis for further discussion. It might be desirable to ask the Cubans that, if they feel it necessary to send this memorandum to Habana, they stress its informal, tentative and preliminary character.

With cordial regards and best of luck to you,

Sincerely yours,

P[HILIP] W. B[ONSAL]

⁷Nelson Norregard, sugar specialist representing the Defense Supplies Corporation.

837.61351/4179

Memorandum of Conversation, by the Chief of the Division of the American Republics (Bonsal)

[WASHINGTON,] August 17, 1943.

The Cuban Ambassador⁸ telephoned me this morning and referred to the conversation which he and López Castro had had with the Under Secretary on Friday, August 13. I informed the Ambassador that Mr. Welles had been absent from the Department since that date. I added that I myself was familiar with the details of the current sugar negotiations and that I would be glad to have a conversation with the Ambassador and López Castro. An appointment was, consequently, made.

During the interview which ensued, the Ambassador said very little. López Castro, after expressing very great appreciation at the way in which the negotiations have been conducted by Commodity Credit, stated that there were still two points unsettled. These he described as follows:

(1) The Cuban Commission believes that there should be retained in the 1944 contract the same provisions as in the 1943 contract with reference to Commodity's obligation to move sugar at its expense, if necessary, to enable storage facilities to become available for the 1944 crop. As I understand it, this does not mean payment for normal movement but merely for abnormal shifts of sugar to take advantage of warehousing facilities. López Castro expressed himself with great eloquence on this subject. He said that the failure to retain this clause would mean that the Cuban producers would be confronted with an uncertainty and would be placed in a disadvantageous position owing to the fact that Commodity determines shipping and port allocations without consulting the Institute. López Castro concluded that a failure on the part of Commodity to include this clause in the new contract meant in effect a closing of the door so far as he was concerned.

(2) López Castro insisted that from the Cuban point of view the escalator clause should be retained in the 1944 contract omitting the twenty-two points mentioned in the 1943 contract.⁹ These points, in accordance with the 1943 provision, would not go to the Cuban producers in the event of an increase in the ceiling price of sugar. López Castro stressed that it would be politically and morally impossible for a situation to develop in which circumstances justify an increase in the ceiling price of sugar and the Cuban producers were debarred by this provision from participating in such an increase. I told López Castro that it seemed to me that the matter was of a rather theoretical nature in view of the determination of the agencies of this Government to hold the line on prices. López Castro replied that he agreed but that he felt that the Cuban position nevertheless should be protected. He then made the proposal that the first 44

⁸ Aurelio F. Concheso.

⁹ Not printed.

points of any increase in the ceiling might be divided equally between the Cuban producers and Commodity. Thus, in the event of a 44 point rise in the ceiling, Commodity would recuperate the 22 points mentioned in the 1943 contract.

By the time he had finished setting forth these two points, López Castro was in a relatively high state of emotion. Both he and the Ambassador asked me, on the basis of the State Department's knowledge of Cuban conditions and so forth, to do my best to secure favorable action on these two points.

Following their departure, I telephoned Mr. Courtney Brown. I told him that, in my judgment, López Castro and the Cubans had handled themselves extremely well in this whole negotiation. I stated that the acceptance by them of a 2.65 price represented a breadth of understanding and statesmanship which I hoped we all appreciated. I then added that on the two points which López Castro had described to me, I hoped that a favorable decision might be reached. I said that the warehousing clause had already been included in the 1943 contract and that I felt that it was impossible for the Cubans to accept anything less favorable in 1944. I pointed out that this clause would be operated on the basis of consultation and cooperation between Commodity and the Institute. It would definitely not be at the whim of the individual mill owners, so far as expense to Commodity is concerned. With regard to the escalator clause, I gave it as my own view that a clause eliminating all mention of the 22 points would be desirable. In other words, I went further than López Castro's latest proposal. However, I did describe this proposal to Mr. Brown, who seemed favorably impressed. (Later the Cuban Ambassador telephoned to say that, in the event that López Castro's proposal appeared satisfactory from our point of view, it would be highly desirable from the tactical angle for it to be presented as a United States proposal. López Castro apparently believes that it will be acceptable to the Cubans, if presented by us.)

Mr. Brown outlined the difficulties which he had been encountering in accepting the Cuban point of view on these matters. He said, however, that he would continue to work on his colleagues, including Mr. Hutson.¹⁰ He appeared fully to recognize the general reasonableness of the Cuban approach to the matter of the 1944 contract.

P[HILIP] W. B[ONSAL]

¹⁰ J. B. Hutson, president of the Commodity Credit Corporation.

837.61351/4179 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, August 20, 1943—6 p. m.

798. Agreement reached today with Cuban Sugar Commission¹¹ which the latter will recommend favorably to the Cuban Government. It was decided that the safety clause would stipulate that increases in the United States' ceiling price up to the first 44 points¹² would be equally shared by the Commodity Credit Corporation and the Institute; any increase more than 44 points to be for the benefit of the Institute. Agreement was also reached for an addition to Article V (f) of the 1943 contract regarding internal transportation costs.

There will be sent to you shortly a draft press release to be simultaneously released at Habana and Washington at a time not yet determined.

The Cuban Commission plans to return to Habana tomorrow having expressed its appreciation of the friendly atmosphere in which the negotiations were conducted.

WELLES

837.61351/4207

Memorandum of Conversation, by George F. Scherer of the Division of the American Republics

Participants: [WASHINGTON,] September 8, 1943.

<i>Cuban Delegation</i>	<i>United States Delegation</i>
Dr. Arturo Mañas	Mr. Earl Wilson, ¹⁶ CCC
Señor Manuel Rasco ¹³	Mr. James C. Marshall, CCC
Dr. Oscar Albertini ¹⁴	Mr. Russell Burchard, CCC
Dr. Felipe Pazos ¹⁵	Mr. Frederick Horne, OEW ¹⁷
	Mr. Willard Barber, RA ¹⁸
	Mr. G. F. Scherer, RA

The United States and Cuban groups resumed discussions of the 1944 Cuban sugar purchase on September 6 in Mr. Wilson's office.

¹¹ Not printed; this agreement was drawn up on August 20 as a "Memorandum of Principles Agreed upon by Commodity Credit Corporation and the Cuban Commission for the 1944 Cuban Crop Purchase Contract," and was initialed by representatives of the Cuban Sugar Commission and of the Commodity Credit Corporation. It stipulated that the 1944 Cuban crop purchase agreement would follow the provisions of the 1943 Cuban Crop Purchase Agreement, subject to certain alterations involving (1) size of crop and quantity of sugar syrups, (2) safety clause for price increases, (3) depreciation allowances, (4) payment, transportation, and insurance, et cetera. (837.61351/4179)
¹² 44 cents per pound.

¹³ Administrator General of the Cuban Sugar Stabilization Institute.

¹⁴ Secretary General of the Cuban Sugar Stabilization Institute.

¹⁵ Felipe Pazos y Roque, Commercial Attaché in the Cuban Embassy in Washington.

¹⁶ Chief of the Sugar Section of the Commodity Credit Corporation.

¹⁷ Office of Economic Warfare, which succeeded the Board of Economic Warfare on July 15, 1943.

¹⁸ Division of the American Republics.

Mr. Wilson presented a draft Purchase Contract¹⁹ which the Cuban Delegation read, indicating that it would have comments to make on the following points:

(1) The Cuban group does not wish to be placed in the position of prohibiting Cuban syrup producers from making the 8,000,000 gallons per year called for under the Sugar Act of 1937.²⁰ Mr. Wilson stated that we would have to maintain a firm position in connection with syrups, for the reasons which had been made clear during earlier discussions.

(2) The Cubans indicated they wish to have the contract signed in Washington.

(3) As drafted, the contract mentions that, if invert molasses is needed in the war effort, the appropriate amount of raw sugar will be taken out of the terms of the contract. The Cuban group stated that it would have some suggestions to make on molasses.

(4) The draft contract stated that no insurance company would be entitled to underwrite more than 8% of the total coverage. While stating that he wishes to avoid a repetition of last year's situation with respect to insurance, Dr. Mañas expressed the fear that an 8% limit would be too strict and too stiff and might defeat the purpose which the CCC has in mind.²¹

(5) Dr. Mañas called attention, on behalf of the Cuban group, to the fuel oil situation for the 1944 crop. Although not mentioned in the draft contract, Dr. Mañas stated that the amount of fuel oil to be allocated by the Petroleum Supply Committee would, in the view of the Cuban Delegation, be entirely inadequate for the crop needed by CCC. He stated that it is not feasible to grind a crop $\frac{1}{3}$ larger with a fuel oil supply $\frac{1}{4}$ smaller. It was suggested that he have submitted to the Embassy at Habana and to Washington a report in this connection for consideration of United States authorities.

[On September 22, 1943, the 1944 Cuban Sugar Crop Purchase Contract was signed in Washington, by Commodity Credit Corporation and the Cuban Sugar Stabilization Institute. By the terms of this agreement, Commodity Credit Corporation contracted to purchase a minimum of 4,000,000 English short tons of raw sugar outright at 2.65 cents, United States currency, per pound free alongside vessel at the customary port of loading for each mill in Cuba. Unless altered by further agreements, the total 1944 sugar crop was to be limited to 4,200,000 short tons, 200,000 of which would be available

¹⁹ Not printed.

²⁰ Approved September 1, 1937; 50 Stat. 903.

²¹ For details of the sugar insurance negotiations, see pp. 185 ff.

for Cuban consumption or, if not needed, included in the Commodity Credit Corporation purchase.]

837.61351/4241

Memorandum of Conversation, by Mr. George F. Scherer of the Division of the American Republics

[WASHINGTON,] September 28, 1943.

Participants:

CUBAN COMMISSION

Dr. Amadeo López Castro
 Senator José M. Casanova
 Dr. Arturo Mañas
 Señor Gaston Godoy ²²
 Señor Teodoro Santiesteban ²³
 Señor Manuel Rasco
 Dr. Felipe Pazos
 Dr. Oscar Albertini

STATE DEPARTMENT

Mr. George F. Scherer

UNITED STATES COMMISSION

Defense Supplies Corp.

Mr. Samuel H. Sabin ²⁴

Mr. James Ferguson

Mr. Carl F. Rose

Mr. John Erickson

Office of Economic Warfare

Mr. George L. Bell ²⁵

Mr. John Eyre

Office of Price Admin.

Mr. George Strasser

It took just three hours for the meeting of September 27 to arrive at a statement; with the Cubans unable to accept the following proposal of the United States group, presented by Mr. Sabin:

(1) One contract to include both invert and blackstrap molasses. The United States is willing to take the exportable surplus of both 1943 and 1944 blackstrap molasses, estimated at a total of about 100,000,000 gallons.

(2) Invert molasses to be sold on the basis of 2.40¢ per pound of sugar, with a minimum quantity of 100,000,000 and maximum of 280,000,000 gallons. The quantity is to come out of the sugar crop as purchased by CCC, although no guarantee can be given that the increase over 70,000,000 gallons will mean an increase in the size of the crop, as that is CCC's decision.

(3) Blackstrap price to be 5½ cents per gallon.

(4) Delivery at customary coastal point.

(5) Delivery on the basis of f.o.b. vessel at the option of the Institute or mill with added payment of ⅜¢ per gallon.

Before reaching its final proposal, the United States Commission reviewed subsidies and cost figures on invert and blackstrap molasses

²² President of the Cuban Sugar Stabilization Institute.

²³ Secretary General of the Cuban Sugar Planters Association.

²⁴ Vice President of the Defense Supplies Corporation.

²⁵ Chief of the General Commodities Branch and of the Foodstuffs Division.

and López Castro expounded on Cuban-American economic relations, dwelling at some length on the trade agreement. He mentioned that the Dominican Republic will receive a price of 2.65 for sugar although it has no trade agreement.

The Cuban Commission clearly indicated that they could not sell invert at less than 2.50 and that they would have to repeat all their previous arguments concerning the need for selling blackstrap on a sugar content basis in reply to a United States proposal.

Comment: It appeared likely that the Cuban Commission has been negotiating on the same basis as it negotiated sugar, that is no less favorable provisions than the 1942 molasses contract are acceptable. They mentioned at the last meeting and for the first time that they have no authority to negotiate a blackstrap price, as they must submit the matter to the Institute and sugar associations in Cuba. They have authority to agree on invert, since it is sugar for all intents and purposes and the Commission's activities, of course, relate directly to sugar.

837.61351/4403

The American Ambassador in Cuba (Braden) to the Cuban Minister of State (Santovenia) ²⁶

No. 1151

HABANA, October 19, 1943.

EXCELLENCY: I have the honor to refer to the recently concluded negotiations during which an agreement was reached by representatives of the Cuban Sugar Stabilization Institute and Commodity Credit Corporation for the sale to the Government of the United States of America of a portion of Cuba's sugar production of 1944. The discussions included certain matters of an intergovernmental character affecting the sugar industry of Cuba, the control of which is in the hands of Your Excellency's Government. I now take pleasure in recording the agreements which my Government understands have been concluded in this connection.

SUGAR LEGISLATION

My Government has noted with satisfaction the statement of the representatives of Your Excellency's Government, embodied in the Cuban Memorandum of August 10, 1943 ²⁷ of the Cuban Sugar Commission, that no change should be made in the sugar legislation in Cuba for the 1944 crop and that the distribution of production should be based on the existing system of quota allocations. Representatives of both the Cuban Sugar Commission and Commodity Credit Corpo-

²⁶ Copy transmitted to the Department by the Ambassador in his despatch No. 5017, November 4; received November 9.

²⁷ Not printed.

ration indicated in the jointly initialed Memorandum of August 20, 1943 ²⁸ the importance of maintaining for the 1944 crop the sugar legislation at present in force in Cuba, with the distribution of production during that year to be based on the existing system of quota allocations.

It is the understanding of my Government that the measures adopted by Your Excellency's Government concerning the work of handling and shipping sugar in all ports, sub-ports and shipping points of the Republic of Cuba which were placed in effect under Ministry of Labor decree No. 892 of February 22, 1943, promulgated in the *Official Gazette* of March 24, 1943 shall continue for the duration of the present state of war.

WAGES

In a supplement to its memorandum of August 10, 1943 the Cuban Sugar Commission suggested, after consultation with its Government, an exchange of notes between the Governments of the United States of America and of Cuba, to embody the understanding of the Institute and the Corporation that it is not the intention of Your Excellency's Government to increase above those existing on July 1, 1943 the stevedoring, loading and port wages, and other charges in connection with the loading of sugar at ports, unless the export price of sugar for Cuba increases. Should any increase in such export price for Cuban sugar occur, and an increase of a general nature in wages of the sugar industry be made as a consequence thereof, stevedoring, loading and port wages may be increased in a proportion not to exceed the proportion of wage increases in the sugar industry.

My Government would appreciate receiving confirmation of the intention of Your Excellency's Government in this respect.

RAILROAD TARIFFS

My Government welcomes the suggestion that the reduced freight rates made effective by Decree No. 1252 of April 21, 1943 covering the shipment of sugar to other than natural ports be continued in effect for sugar produced in the 1944 crop. It will be a pleasure to receive an indication of Your Excellency's Government's views on this point, which was included in the Memorandum of August 20, 1943 initialed by representatives of the Cuban Commission and of Commodity Credit Corporation.

Please accept [etc.]

[SPRUILLE BRADEN]

²⁸ See footnote 11, p. 174.

837.61351/4403

The American Ambassador in Cuba (Braden) to the Cuban Minister of State (Santovenia) ²⁹

No. 1152

HABANA, October 19, 1943.

EXCELLENCY: I have the honor to refer to my Note No. 343 of April 3, 1943 relative to the possible accrual of a net profit to the Government of the United States of America as a result of the 1943 Sugar Purchase Contract. I also refer to Article Eighteen of the 1944 Cuban Sugar Crop Purchase and Sale Contract, the provisions of which apply to the determination of a net profit if any, resulting from the 1944 sugar crop purchase.

Taking into consideration the Article under reference, my Government reasserts its readiness to join in consultation with Your Excellency's Government concerning the distribution, for the benefit of Cuba, of any eventual net profit that may be disclosed. My Government has not undertaken the 1944 sugar crop purchase contract for the purpose of making a net profit, nor does it propose that any of its agencies shall profit thereby. In determining whether a net profit has been realized, the loss, if any, incurred by Commodity Credit Corporation under the purchase agreement on 1943 Cuban sugar crop is to be taken into consideration among other items.

Please accept [etc.]

[SPRUILLE BRADEN]

837.61351/4446

The Ambassador in Cuba (Braden) to the Secretary of State

No. 5182

HABANA, November 19, 1943.

[Received November 23.]

SIR: I have the honor to transmit a copy and translation³⁰ of Cuban Government Decree No. 3239 published in the *Official Gazette* No. 638 on November 15. This decree authorizes the Cuban Sugar Stabilization Institute to sell to the Commodity Credit Corporation up to 28,000 short tons of additional raw sugar from the 1943 crop in accordance with the purchase agreement for the 1943 crop. Originally 225,000 short tons were set aside for domestic consumption, but article four of Decree No. 396 of February 5, 1943, provided that any unused surplus not required for domestic consumption might be sold and included under the purchase agreement.

The total quantity of the 1943 crop of sugar purchased by the Commodity Credit Corporation, therefore, consists of the original 2,700,000

²⁹ Copy transmitted to the Department by the Ambassador in his despatch No. 5017, November 4; received November 9.

³⁰ Not printed.

short tons, an additional 300,000 tons previously purchased and the 28,000 tons authorized by the attached decree, or a total of 3,028,000 short tons.

Respectfully yours,

For the Ambassador:
PAUL G. MINNEMAN
Agricultural Attaché

837.61351/4444 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, November 24, 1943—8 p. m.

998. Reference is made to your despatch no. 5215 of November 22, 1943, transmitting the memorandum of November 22³¹ with regard to molasses negotiations, etc.

After careful consideration of the memorandum of the Cuban Government, this Government is prepared to renew discussions immediately on the basis of the following points, which are thought to be of major importance to the United States and Cuban Governments in their joint prosecution of the war:

(1) In view of the close relationship between the production of invert molasses and the size of the 1944 Cuban sugar crop, this Government contemplates the inclusion of discussion relative to size of the crop in the renewed negotiations, which determination will be reached by Institute and Commodity Credit Corporation representatives under the terms of the 1944 Sugar Purchase Contract (Mr. Earl Wilson will represent Commodity).

(2) Other products derived from sugar should likewise be considered, such as:

a. It is the intention of this Government to request the production of not less than 1,000,000 nor more than 1,500,000 short tons of sugar in the form of invert.

b. Determination of the quantity and price of blackstrap available for export.

c. The purchase and price of all surplus industrial alcohol fulfilling specifications available for export.

(3) While this Government is at all times ready to discuss matters affecting the long term economic relations of the two countries such as alcohol, the Cuban proposal for a permanent alcohol quota in the United States does not appear to lend itself to the present negotiations, since it does not concern the war agencies interested in sugar, molasses and alcohol procurement for 1944.

The Cuban proposal is one involving permanent trade relations of the two countries and any action which this Government might be able to take would be subject to the policy of the reciprocal trade agreement program.

³¹ Neither printed.

(4) On the successful conclusion of the negotiations for molasses and alcohol it may prove unnecessary for either Government to establish further control of Cuban beverage alcohol production, exportation, or importation. The complexity of the present situation precludes any commitment on this point.

(5) While the wish of the Cuban Government to renew discussions in Habana has been most carefully considered, the interested agencies of this Government are hopeful that it may be possible for the Cuban Delegation to return to Washington for this purpose. In this connection, the scope of the various problems under discussion and the number of United States Governmental agencies involved appear to make it more practicable for negotiations to be carried on here. The assistance and cooperation of the Government of Cuba in this regard are earnestly sought. The Department is confident that you will make every effort to secure a favorable decision in this connection.

You are authorized to present the foregoing views to the appropriate Cuban authorities, urging their prompt consideration, in view of the importance of this problem to the prosecution of the war.

HULL.

837.61351/4457 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, December 6, 1943—7 p. m.

[Received 11 : 47 p. m.]

806. The Prime Minister in a confidential personal letter to me dated December 3 ³² states that he has received information to the effect that the Mexican Government in conjunction with the Pepsi Cola Company and other American interests is disposed to purchase 100,000 tons of Cuban refined sugar—40,000 for the Pepsi Cola Company and 60,000 for the Mexican Sugar Institute—and to furnish Cuba in return with all the gas oil required for its agricultural diversification ³³ and Public Works Program. The gas oil and sugar would be transported in Mexican bottoms exclusively. The Prime Minister inquires whether such a plan would conflict with any existing regulations of our Government and dwells once more on the difficulties experienced by Cuba due to restricted gas oil supplies.

I am informing the Prime Minister that this matter has been referred to Washington, pointing out, however, that the plan seems of doubtful practicability as it would require our consent to the production in 1944 of an additional 100,000 tons of sugar and the earmarking of 40,000 tons thereof for a private concern; and as, in line with basic pool principles, any gas oil imported from Mexico would

³² Not printed.

³³ For details of the diversification program, see pp. 223 ff.

probably have to be charged to Cuba's over-all petroleum products quota.

I would appreciate receiving at the earliest opportunity an expression of the Department's views in the matter in order that I may reply to the Prime Minister.

Not repeated to Mexico City.

BRADEN

837.61351/4513

Memorandum by the Chief of the Division of the American Republics (Bonsal) to the Assistant Secretary of State (Acheson)

[WASHINGTON,] December 17, 1943.

MR. ACHESON: On December 20 in Washington representatives of the Cuban Government, sugar and alcohol industries, will renew discussions involving the possible purchase by this Government of blackstrap and invert molasses and industrial alcohol. Previous conversations were interrupted in late September, when the Cuban group indicated it was unable to accept Defense Supplies Corporation's proposal on invert and backstrap molasses.

Blackstrap Molasses

Since September, War Production Board has become increasingly concerned at the sky-rocketing diversion into beverage alcohol of Caribbean molasses urgently needed in the United Nations alcohol program. With the enormous expansion in Cuban alcohol producing facilities it is likely that no Cuban blackstrap molasses will be available to the war program next year if the current negotiations are unsuccessful.

Invert Molasses

WPB's present interest is to obtain as much invert molasses as it can in agreement with the food agencies of this Government and with the Cuban Government. The provisions of the 1944 Cuban Sugar Contract call for agreement between Commodity Credit Corporation and the Cuban Sugar Institute as to the total size of the Cuban crop and for agreement as to the amount of sugar to be released from the contract for the production of invert molasses.

Agencies of this Government have agreed on the equivalent of 800,000 short tons of sugar in invert, but the Cubans may not be willing to produce much more than 600,000 tons as invert. Agriculture has estimated the 1944 Cuban crop at 4,850,000 short tons to be distributed as follows:

local consumption	200,000
sugar	3,850,000
invert	800,000

Alcohol

This Government proposes to purchase Cuban specification industrial alcohol at a price related to blackstrap. While no official figures are available as to Cuba's possible production, private sources estimate output of 190 proof alcohol as high as 80 to 90 million gallons annually. For alcohol not meeting specifications an adjusted price may be paid.

Beverage Import Control

In May this year the Embassy at Habana suggested the advisability of establishing control of alcohol imports under War Production Order M-63 in order to safeguard for Cuba its supply of cooking and motor vehicle fuel in the face of increasing beverage alcohol exports. WPB did not consider itself involved at that time, since the tanker shortage made it impossible to move much molasses. Subsequently, shipping eased, and WPB finds its much needed raw material diverted into non-essential use. It has been unable to agree to definitive import control although it indicates that it would be willing to use such control as a last resort and if the negotiations are about to break down. The level at which imports would be fixed has not been decided.

The Department has maintained throughout the numerous discussions that we should inform the interested Governments including Cuba, Mexico and so on, in advance of the establishment of import control.

Numerous U. S. Agencies Involved

The variety of United States agencies interested in the matter has not made it easy to deal effectively with the Cubans. Commodity Credit Corporation, as purchaser of sugar; War Production Board, directing Foreign Economic Administration to procure certain quantities of molasses; and Defense Supplies Corporation as previous molasses purchaser, are all actively interested. It has been my feeling for some time that the purchase of molasses and sugar might very effectively be centered in one agency.

Mr. Crowley has decided that the American negotiating group will be headed by Mr. Sidney Scheuer, Director, Foreign Procurement and Development Branch, FEA.

In an effort to emphasize the importance of the molasses and alcohol programs, the Secretary discussed the matter with Dr. Concheso, Cuban Ambassador at Washington. The Secretary spoke of the tremendous diversion of an essential raw material into non-essential channels, stressing the need for both Governments to face firmly the efforts and pressure of the private, powerful alcohol interests.

I will be glad to discuss this matter further should you have any questions.

PHILIP W. BONSAI

387.61351/4505

*Mr. Gustave Burmeister*³⁴ to Mr. George F. Scherer of the Division of the American Republics

WASHINGTON, December 18, 1943.

DEAR MR. SCHERER: Reference is made to Habana cable #806 dated December 6 concerning a proposal of the Mexican Government in conjunction with the Pepsi Cola Company to purchase 100,000 tons of Cuban refined sugar.

It is the consensus in Agriculture that no such proposal should be given favorable consideration.

In the first place, the prospective Caribbean supply of sugar is approximately 500,000 short tons below requirements upon this area as a source. The United States has commitments to furnish 700,000 tons of sugar to North and West Africa and Russia under lend-lease and to certain other United Nations and friendly neutrals besides a large military and civilian ration demand. Also the equivalent of 1,000,000 tons of Caribbean sugar probably will be required for the production of industrial alcohol, and 1,120,000 tons are needed to fill British and Canadian requirements. It is also important that stocks in the Caribbean as of the end of 1944 be maintained at a level that will provide sufficient sugars to maintain the shipping schedule in early 1945, and to forestall the development of a shortage situation when the United States bargains for the 1945 crops.

In the second place, Mexico has not taken any definitive steps to curtail the consumption of sugar, as have the United States, the United Kingdom, Canada, Russia and French North and West Africa. On the contrary, consumption of sugar in Mexico has been rising sharply during the war years as a result of increasing purchasing power, whereas in all of the other countries mentioned above, consumption has been reduced to levels considerably below normal. In this connection it is noted that a part of the proposed import from Cuba is for the Pepsi Cola Company and is for the purpose of producing unrationed flavoring syrups for export to the United States. It is the consensus in Agriculture that the import of these syrups into the United States should be restricted and that the sugar value should be chargeable to the importer's sugar ration. It is not unlikely that this action will be taken in the near future, in which case the Pepsi Cola Company would not require the sugar in Mexico.

³⁴ International Commodity Specialist in the Office of Foreign Agricultural Relations.

Finally, it should be pointed out that Mexico is just starting to harvest a new crop of sugar cane and there is no likelihood of a sugar shortage developing there during the next 9 months. Reports have been received that the new cane crop has suffered damage from hurricanes and flood, but no accurate appraisal of the extent of the damage can be made until after harvest is complete. It is suggested, therefore, that no further consideration be given to the question of Mexico's import needs until sometime next summer when a clearer picture of the supply and requirements situation will be available.³⁵

Very truly yours,

GUSTAVE BURMEISTER
International Commodity Specialist

837.61351/4494a : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, December 22, 1943—10 p. m.

1082. The following basic principles with regard to the 1944 production of Cuban invert molasses were agreed to at the first meeting of the Cuban and United States Delegations on December 22:

- (1) Cuba to grind all its available cane.
- (2) 800,000 short tons to be produced as invert.
- (3) If crop is in excess of 4,750,000 short tons (present Cuban estimate of total crop) decision will be reached later whether excess is to be produced as sugar or invert, the Cuban Delegation indicating it will endeavor to produce largest possible amount of post-crop invert.
- (4) Price—2.50 cents per pound based on sugar content of invert, with escalator clause similar to sugar contract and with terms as in 1942 molasses contract.

HULL

DISCUSSION CONCERNING INSURANCE OF THE 1943 AND 1944 CUBAN SUGAR CROPS

837.61351/3735 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, March 11, 1943—6 p. m.

[Received 7:14 p. m.]

143. My despatch no. 2319, of February 27,³⁶ re sugar insurance 1943 crop. It is recommended in connection with the crop sale con-

³⁵ In instruction No. 2695 of December 27, the Department informed the Ambassador in Cuba that it concurred in the views expressed in this letter, a copy of which was transmitted to the Embassy (837.61351/4500).

³⁶ Not printed.

tract³⁸ that a provision be inserted requiring public bids re insurance on 1943 sugar. Although the cost of insuring such sugar through June 30, 1944, will be borne by the Cuban producers I believe that without some such safeguard a situation may develop in which our attitude is misinterpreted to the benefit of certain interested persons in Habana. I am bringing informally to the attention of the Prime Minister³⁹ rumors circulating in Habana with respect to alleged plans for splitting commissions in certain directions (the premium will reportedly amount to almost \$400,000) as well as to reports that those allegedly promoting the deal are saying that "the American Government wants it done that way". I shall also point out that notwithstanding the fact that the cost of the insurance is to be borne by producers, with the American Government investing upwards of \$150,000,000 in this crop, we can legitimately insist that responsible American brokers be not excluded from bidding for the business.

(Provision for the placing of this insurance by the Institute⁴⁰ is contained in article 16 of the crop decree transmitted with despatch no. 2372 of March 6 last⁴¹).

BRADEN

837.61351/3753 : Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, March 20, 1943—12:30 p. m.

A-992. Reference Embassy's 157, March 16, 8 p. m.⁴¹ and previous correspondence. The insurance underwriting matter which you have discussed with Cuban officials has likewise received the consideration of Commodity Credit Corporation.⁴²

CCC is insisting on the inclusion of clause in the contract providing that payment will not be made on sugars stored in port warehouses and remaining unshipped on June 1, 1943, unless covered by insurance certificates acceptable to Commodity. In order to be acceptable, CCC has informed the Department that certificates must be completely satisfactory both as to the extent of the coverage and the caliber of the underwriter.

The Department agrees with CCC that the foregoing will provide sufficient security under the contract.

HULL

³⁸ Contract not printed. For details of the purchase agreement for the 1943 sugar crop, see pp. 151 ff.

³⁹ Ramón Zaydín.

⁴⁰ Cuban Sugar Stabilization Institute, a Government entity established to supervise production and export of sugar.

⁴¹ Not printed.

⁴² United States Government corporation, authorized to purchase Cuban sugar.

837.61351/3773

Memorandum by Mr. George F. Scherer of the Division of the American Republics ⁴³

[WASHINGTON,] March 26, 1943.

SUGAR INSURANCE

The Embassy at Habana continues to devote considerable time and effort to the questionable sugar deal involving Enrique Godoy.⁴⁴ In despatch 2528 of March 19⁴⁵ the Embassy reports on a conversation at the Embassy in which Godoy, the Ambassador and evidently Ellis Briggs⁴⁶ joined. I am inclined to feel that the Embassy is perhaps overzealous in its approach to this insurance problem. Mr. Earl Wilson⁴⁷ of CCC has indicated that his agency is interested in making certain that the policies are in good companies and provide sufficient coverage. I feel that the Embassy is not in a position to deal with the questionable phase of this matter in a practical way, and consequently the more it intervenes the greater is the possibility of it receiving some of the eventual blame.

837.61351/3860 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, May 1, 1943—12:30 p. m.

[Received May 3—3 p. m.]

A-822. My despatch No. 2574 of March 25, 1943.⁴⁸ The Cuban Congressional Committee investigating the Godoy sugar insurance deal has voted a 4 to 3 approval thereof. I am reliably informed that this favorable decision resulted from pressure applied by the President⁴⁹ despite the unfavorable reports made by the expert witnesses. The matter remains much in the public eye.

Having in mind that only one month now remains before we are scheduled to advance approximately one hundred and thirty million dollars, I wish to reiterate the suggestion contained in the above-mentioned despatch that unless Commodity Credit Corporation is

⁴³ Addressed to Philip W. Bonsal, Chief, and Willard F. Barber of the Division of the American Republics. Mr. Barber wrote the following comment: "I fully concur in these comments regarding overzealousness."

⁴⁴ Member of the Cuban insurance brokerage firm of Godoy and Sayán, in Habana. On March 5, the Executive Committee of the Cuban Sugar Stabilization Institute authorized the brokerage firm of Godoy and Sayán to underwrite "provisional insurance" pending the establishment of a definite contract.

⁴⁵ Not printed.

⁴⁶ Counselor of Embassy in Cuba.

⁴⁷ Chief of the Sugar Section, Commodity Credit Corporation.

⁴⁸ Not printed.

⁴⁹ Fulgencio Batista y Zaldívar.

fully satisfied regarding the protection offered, we should lose no more time in sending an expert and disinterested sugar insurance investigator to Habana.

I am of the opinion that a competent man should be able to obtain and evaluate all the facts after a few days of intensive study and discussions with all the persons involved and interested. But a definite decision on the acceptability of the Godoy plan should not be further deferred, and in particular because of the afore-mentioned approval given by the Congressional Committee it might have an unfavorable effect were we only a few days before June 1 to announce that we did not consider satisfactory the Institute-Godoy arrangement (which was announced barely two months ago).

BRADEN

837.61351/3860 : Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, May 8, 1943—6:25 p. m.

No. A-1271. Reference Embassy's Airgram A-822, May 1, 12:30 p. m. Your recommendation to send sugar insurance investigator to Habana to examine insurance deal has received careful consideration of the Department and CCC, which agency awaits a reply to its letter of April 20 to Institute, mentioned in Department's instruction No. 1551 of April 26.⁵⁰ Although arrangement was announced two months ago, details have not been submitted and CCC prefers to have review of matter take place in Washington with full responsibility on Institute for presenting satisfactory coverage. When facts are before CCC, a speedy decision can be reached.

You are requested to ascertain from Institute how soon CCC may expect reply, which, of course, should be expedited.

(Banking arrangements have already been made by CCC for June first payment.)

HULL

837.61351/3895 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, May 21, 1943—5 p. m.

[Received 6:55 p. m.]

347. Department's telegrams numbers 600 May 20, 2 p. m.;⁵¹ and 601, May 20, 6 p. m.⁵² even assuming (as I find myself unable for

⁵⁰ Neither printed.

⁵¹ See footnote 61, p. 190.

⁵² Not printed.

reasons indicated in my telegram [*airgram*] number 936 of May 14⁵³ to do) that the technical aspects of the insurance deal are the only ones for consideration it seems apparent from telegram number 601 that those aspects leave very much to be desired.

I am informed that the reinsurance is assigned to the Institute in order to protect it in the case of the bankruptcy of the Rhode Island or the Metropolitan.⁵⁴ However, I am also informed that the reinsurance is with Lloyds and may be canceled at any time.

I do not understand the "absence of satisfactory alternative" referred to in telegram No. 600 since it is apparent that if we reject the Godoy deal the Institute will certainly produce alternate insurance proposals and if these should prove unsatisfactory we could offer to insure the sugar ourselves (of course at the expense of the Cuban producers).

In accordance with instructions contained in telegram number 601, Norregard⁵⁵ on behalf of CCC is conveying that message to the Institute.

BRADEN

837.61351/4008

*Memorandum by the Assistant Chief of the Division of the American Republics (Walmsley)*⁵⁶

[WASHINGTON,] May 29, 1943.

CUBAN SUGAR INSURANCE

The contract for the 1943 sugar crop⁵⁷ provides in Article VIII (c) that the Commodity Credit will make payments up to 90 percent on June 1, provided the insurance contracts are satisfactory, in the following terms:

"Said 90% payment shall be made against warehouse receipts certified to by the Institute, identity certificates authenticated by the Institute, and *insurance certificates acceptable to Commodity* for coverage equivalent to that placed by Commodity on February 16, 1943, covering sugar under the 1942 Cuban Crop Purchase Contract,⁵⁸ but total limit on the hurricane risk shall not be less than \$5,000,000." (Under-scoring mine^{58a})

⁵³ Not printed; it is partially quoted in memorandum of May 29, *infra*.

⁵⁴ The Rhode Island Insurance Company of Providence, R. I., and La Metropolitana, Compañía Nacional de Seguros, S. A.

⁵⁵ Nelson Norregard, representative in Habana for Defense Supplies Corporation.

⁵⁶ Addressed to the Under Secretary of State (Welles) and the Adviser on Political Relations (Duggan).

⁵⁷ Not printed. For details of the purchase agreement for the 1943 sugar crop, see pp. 151 ff.

⁵⁸ For details of the purchase agreement for the 1942 sugar crop, see *Foreign Relations*, 1942, vol. VI, pp. 315 ff.

^{58a} Printed in italics.

Ambassador Braden, in his airgram of May 14,⁵⁹ reported upon alleged corruption in connection with the insurance deal which has come to be known as the "Godoy Proposal". Mr. Braden has, for example, stated that "reports of corruption . . . have . . . become . . . so notorious . . . that I have reached the conclusion that even if the insurance appears secure . . .⁶⁰ should we permit the deal to go through we can hardly escape criticism as being in effect party to a fraud". . . .

Mr. Bonsal, Mr. Scherer and I examined this message carefully and concluded that, if the proposal were to be refused, it should be properly refused by the Commodity Credit, under the terms of its contract with the Institute, on technical grounds and not on allegations of corruption nor for policy reasons, for which the Department would have to take the responsibility. Mr. Bonsal sent a message reading as follows: ⁶¹

"In absence of satisfactory alternative for present insurance proposal the Department considers its suitability should be determined entirely on its technical merits, by the CCC."

The CCC and representatives of the Institute were in almost continuous session this week. The CCC called in an insurance specialist for consultation. Certain questions arose on which the CCC desired additional security and assurances, primarily with regard to the reinsurance of the insurance written by one American company and four Cubans. The CCC is now satisfied with the reinsurance contracts, which have been passed upon as well by the insurance specialists, and have informed the Institute's representatives that the insurance contracts are acceptable and that, therefore, sugar payments will be made June 1 in accordance with the Sugar Crop Purchase Contract.

Following our usual practice of keeping the Ambassador at Habana up-to-date by sending copies of memoranda from time to time, we sent Mr. Braden two memoranda on two meetings, May 27,⁶² with regard to the insurance discussions. Those memoranda have now evoked an unequivocal condemnation of the insurance deal (Habana's 366 of May 28⁶³) in which Mr. Braden makes the following principal points:

- (1) The transaction is unsavory.
- (2) \$200,000 graft will be distributed in high quarters.
- (3) Reports of graft are widespread.
- (4) The prestige of the United States Government would be involved if the insurance is accepted.
- (5) The rejection of the insurance should be based not on unsubstantiated allegations of graft but on technical grounds; and the Am-

⁵⁹ Airgram A-936, not printed.

⁶⁰ Omissions in this sentence indicated in the original memorandum.

⁶¹ Text of Department's telegram No. 600 of May 20, 2 p. m.

⁶² Neither printed.

⁶³ Not printed.

bassador recommends employment of a competent expert (this was done according to CCC).

(6) Rejection on technical grounds would nevertheless be interpreted by the public as a rejection based in fact on the nature of the transaction.

(7) The Ambassador requests that the deal be rejected as a matter of policy and future good relations with Cuba.

As we know, the Ambassador is considerably worked up over Cuban corruption. I think that from a purely practical point of view we should not request the CCC to withdraw its acceptance of this morning (before receipt of Mr. Braden's latest telegram) of the insurance, for the following reasons:

(1) The reinsurance according to the experts is good and safe.

(2) Refusal could prejudice the entire contract⁶⁴ by placing the Institute in a position where its essential collaboration in fulfilling the terms of the contract would be jeopardized.

(3) The Institute would lay itself open to renewed sniping by its opponents who are always trying to build up a case for its abolishment (which course might bring about the collapse of the non-political sugar control structure and seriously injure our interests.)

W. N. WALMSLEY, JR.

837.61351/3888 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, May 29, 1943—7 p. m.

626. The Commodity Credit Corporation has made a most careful study of the insurance contracts, in connection with which they have been in almost continuous session for the past few days, with Rasco,⁶⁵ Albertini⁶⁶ and Godoy representing the Institute. The principal issue has been the reinsurance in connection especially with the policies of the Rhode Island Insurance Company and four Cuban companies.

The representatives of the Commodity Credit Corporation have in this regard obtained from the Institute's representatives, through negotiation, certain readjustments and additional commitments which from the technical aspects are satisfactory to the Commodity Credit Corporation.

Thus the Commodity Credit Corporation has concluded that the coverage is satisfactory and it will according to the contract be able to effect 90 per cent payments on June 1.

⁶⁴ Contract for United States purchase of the 1943 Cuban sugar crop.

⁶⁵ Manuel Rasco, Jr., Administrator General of the Cuban Sugar Stabilization Institute.

⁶⁶ Oscar Díaz Albertini, Secretary General of the Institute.

The Department's representative attending these insurance meetings has followed the discussions with your opinions of the transaction fully in mind. The Department did not see fit to urge the CCC as purchaser of the sugar to inject into its examination of the contracts and in its conversations with the Cubans any other considerations than the proper technical ones. (It might be mentioned that the Commodity Credit Corporation would also be loathe to place the Institute, whose collaboration in the coming months for the fulfilment of the sugar purchase contract is essential, in the extremely embarrassing position vis-à-vis the industry in which refusal to accept the insurance contracts would have placed it.)

HULL

837.61351/4009a

*The Assistant Chief of the Division of the American Republics
(Walmsley) to the Ambassador in Cuba (Braden)*

No. 66

WASHINGTON, May 31, 1943.

DEAR MR. AMBASSADOR: All of us who are interested in Cuba (and there are many) have given our very best thought to the sugar insurance problem on which you have sent a number of interesting, helpful and informative messages.

Knowing how very interested you and Ellis ⁶⁷ have been in this transaction, I should like to give you a summary of the developments and of the factors which have guided the action here.

Discussions have been held within the Department among such Cuban experts (and near experts) as Larry, Phil, George ⁶⁸ and me; and the pros and cons were even carried to the highest quarters.

In all of the discussions, both intragovernmental and with the Cubans, which have been held in the CCC, we have had a representative present, to express your views and those of the Department, and to keep us informed.

The CCC, throughout its examination of the insurance and reinsurance contracts, had the benefit of the assistance and advice of a Department of Agriculture insurance expert.

Frankly, we did not feel that we could muster sufficient substantiated evidence of a political nature which would justify asking the CCC, which was entirely satisfied with the risk on technical grounds to refuse acceptance of the contracts. One of the results of disapproval on unsubstantiated political grounds may well have been accusations against this Government and probably especially against the State Department that this was a successful maneuver on the part of other groups of less-favored insurance companies. . . .

⁶⁷ Ellis O. Briggs.

⁶⁸ Laurence Duggan, Philip Bonsal, and George Scherer.

We have made a few inquiries among sugar people with regard to the practice of splitting commissions and have been uniformly told that this practice is traditional and unquestioned (regardless of its merits) in the sugar industry in Cuba. We have also made inquiries as to the degree of commission splitting and have been uniformly told that the amounts split this year are not out of line with split commissions in previous years (always in relation, of course, to the proportions of the transaction).

In substance, then, it appears that neither the practice of commission splitting nor the degree has been very different this year than in previous years.

Incidentally, the CCC feels confident that the reduction in rates which has now been effected would work to the advantage of this Government when the CCC assumes title to and responsibility for the remaining '43 sugars.

Sincerely yours,

W[ALTER] N. W[ALMSLEY]

837.61351/4132

Memorandum by Mr. George F. Scherer of the Division of the American Republics to the Chief of the Division (Bonsal)

[WASHINGTON,] July 24, 1943.

INSURANCE ON 1944 CUBAN SUGAR CROP

MR. BONSALE: Mr. Wilson of CCC mentioned to me during yesterday's sugar meeting that neither he nor Mr. Brown⁶⁹ have been able to discover a way by which a provision can be inserted in the 1944 sugar agreement⁷⁰ guaranteeing a minimum of manipulation in underwriting the insurance contracts.

I am disturbed at the prospect of a recurrence of Godoy's operation on the 1943 crop. While there was little for the Department to do after the arrangement had been presented to CCC with the approval of the Institute and the Cuban Senate, it strikes me that the Department or CCC might well call to the attention of the Cuban Delegation the desirability of providing an equal opportunity for the various underwriters legally doing business in Cuba to contract for the 1944 insurance. May I please have your views?

⁶⁹ Courtney Brown, vice president of the Commodity Credit Corporation.

⁷⁰ See pp. 167 ff., especially the bracketed note on p. 175.

837.61351/4365

Mr. Earl B. Wilson of the Commodity Credit Corporation to the Chief of the Division of the American Republics (Bonsal) ⁷¹

WASHINGTON, October 9, 1943.

DEAR MR. BONSALE: Prior to the 1943 crop, the bulk of the Cuban sugar warehouse insurance was handled through the New York insurance brokerage firm of Johnson & Higgins. As you know, the 1943 insurance was placed by the Institute through Enrique Godoy in Havana.

Mr. Louis Tofte of the firm of Johnson & Higgins called on me yesterday and stated that the insurance companies, which are among the most responsible in the United States, that handled the insurance prior to 1943 are prepared to reduce their rates in an effort to recover the business. The companies that Mr. Godoy placed the insurance with were not sufficiently large to handle the coverage alone and it was necessary to have extensive reinsurance in order to afford the necessary protection. We hope that the 1944 insurance can be spread so that it will be placed with responsible companies with a very limited amount of reinsurance.

For that reason we are glad to hear that Mr. Tofte's group is prepared to reenter the market. He stated that he is sure that the rate they will quote will be low enough to get the business but is afraid that other considerations will influence the decision of the Institute. He feels that if the Institute would agree to ask for sealed bids and open such bids in a manner that would insure the lowest bidder receiving the business, the situation would work out satisfactorily. If sealed bids are not required, he is of the opinion that whatever he quotes will be shopped around by competitors and the entire insurance picture will again become confused.

Commodity Credit Corporation is particularly anxious for a greater spreading of insurance because of the larger crop in 1944 and the greater amount of money involved in the advances to be made by Commodity to the producers. The suggestion of sealed bids appeals to us and we would appreciate anything Mr. Braden can do to further the program, providing it meets with his approval.

Mr. Tofte will be in Havana in the very near future and we are suggesting to him that he call upon Mr. Braden prior to discussing the insurance problem with any other parties in Havana.

Very truly yours,

EARL B. WILSON
Director, Sugar Division

⁷¹ A copy of this letter was transmitted to the Ambassador in Cuba in Department's Instruction No. 2410 of October 16 for his information and comment.

837.61351/4483

The Ambassador in Cuba (Braden) to the Secretary of State

No. 5447

HABANA, December 18, 1943.

[Received December 22.]

SIR: I have the honor to refer to previous correspondence concerning the insurance scandal relative to the 1943 Cuban sugar crop and to the opinion which I have expressed on various occasions that unless the Institute takes a strong stand in the matter a similar unsavory deal is likely to be attempted (and consummated) with respect to the much larger 1944 crop.

I consider that the only sound procedure in the premises will be for the Institute to call for bids for the 1944 insurance, with the understanding that should there appear to be collusion among the underwriters and unsatisfactory bids submitted, the whole subject be aired and a new call for bids made. Should this be done, I have no reason to doubt that responsible companies will make offers combining reasonable rates with maximum security.

In order to sound out the situation I have taken up this question informally with several of the leading American *hacendados*,⁷² having in mind that in the first instance the Hacendados Association⁷³ could be useful in promoting through its members in the Institute full discussion of the matter, with a view to Institute endorsement of competitive bidding. Insofar as I have been able to determine thus far, all of the American *hacendados* favor competitive bidding with the possible exception of Mr. Philip Rosenberg of the General Sugar Estates (National City Bank) who had a falling-out with his underwriters two years ago with the result that he contracted for insurance on the 1942 and 1943, crops through the Rhode Island Insurance Company (represented in Habana by Enrique Godoy). I have not yet discussed the matter with Mr. Rosenberg, although I intend to do so. Other American *hacendados* have been emphatic in denouncing the "negocio sucio"⁷⁴ of the 1943 insurance and in deploring the way in which it inevitably damaged the prestige and standing of the Institute.

I have good reason to believe that, although eight months ago he loudly condemned the Godoy deal as "un atraco"⁷⁵ Senator Casanova⁷⁶ in fact had considerable to do with putting it across. Should there be any discussion of these matters during the forthcoming

⁷² Sugar mill owners.

⁷³ National Association of Sugar Mill Owners of Cuba.

⁷⁴ "Dirty business."

⁷⁵ "A holdup".

⁷⁶ José Manuel Casanova, Chairman of the Hacendados Association.

molasses-alcohol negotiations, it might be desirable to bear the foregoing in mind.

While I appreciate that at this juncture the question of insurance on the 1944 crop is not a matter in which our Government has any official say, nevertheless the insurance eventually "shall be subject to acceptance by Commodity and the Institute . . ." ⁷⁸ pursuant to Article 10 of the 1944 contract. ⁷⁹ I wish therefore to reiterate the view which I have earnestly expressed on previous occasions, namely that the good name of our Government was not enhanced by our acceptance of the 1943 crop deal, the corruption involved in which was a matter of widespread public knowledge in Cuba and likewise in sugar and insurance circles in the United States. It was a source of deep regret to me that the Department did not see fit to support my recommendations in this matter, and my purpose in raising the issue again, at this time, is that unless we cease to be acquiescent in this particular, I should expect last year's arrangement with its attendant graft to be duplicated when the time comes to insure the 1944 crop.

Respectfully yours,

SPRUILLE BRADEN

837.61351/4541

Memorandum by Mr. George F. Scherer of the Division of the American Republics ⁸⁰

[WASHINGTON,] December 30, 1943.

GENERAL CUBAN SUGAR MATTERS

With respect to Habana's Airgram no. A-2531 of December 21, ⁷⁹ Mr. Earl Wilson informed me on December 29 that he plans to talk over the incomplete exchanges of notes with Señor López Castro ⁸¹ as soon as the latter has recovered.

Mr. Wilson also mentioned he had talked with Dr. Arturo Mañas ⁸² concerning the 1944 sugar crop insurance. It appears that all agents have been circularized by the Institute which indicated that Enrique Godoy would be the broker. Certain agents have informed the institute that they will take part in the underwriting only through their customary brokers. Mr. Wilson regards this as a favorable development, since it shows that the insurance matter is now "in the open" and the Institute is likely to act more circumspectly than before.

⁷⁸ Omission indicated in the original despatch.

⁷⁹ Not printed.

⁸⁰ Addressed to Philip W. Bonsal, Chief of the Division of the American Republics, and Willard F. Barber of the same Division.

⁸¹ Amadeo López Castro, President of Cuba's National Development Commission and special representative in Washington of the Cuban Government.

⁸² Arturo M. Mañas, Cuban consulting lawyer in sugar negotiations.

Mr. Wilson pointed out again to Dr. Mañas, as he did in August, the importance of satisfactory insurance. He stated that CCC will not accept the large amount of reinsurance that accompanied the 1943 contract, nor will CCC permit any single company to carry more than 7% of the total insurance involved.

Mr. Wilson feels that CCC's position has been presented emphatically and frequently enough to make it impossible for the Cubans later to claim a lack of sufficient time to get organized.

REPRESENTATIONS REGARDING INTERVENTION BY THE CUBAN GOVERNMENT TO COMPEL RESTORATION AND CONTINUED OPERATION OF AMERICAN-OWNED SUGAR MILL DESTROYED BY FIRE

837.48/169

The Ambassador in Cuba (Braden) to the Secretary of State

No. 2004

HABANA, January 21, 1943.

[Received January 23.]

SIR: With reference to my telegram no. 39 of January 20, 1 p. m.,⁸³ reporting the destruction by fire of the American-owned Tinguaro Sugar Mill at Perico, Cuba,⁸⁴ I have the honor to enclose a copy of pertinent portions of a report⁸³ by the Office of the Legal Attaché of this Embassy, giving details regarding the destroyed factory.

This report states that the fire which destroyed the Tinguaro Sugar Mill, which is owned by the American firm, Cuban-American Sugar Company, started about 4 a. m. January 20, 1943, probably from a short circuit in the electrical wiring system, and except for the packing room and the centrifugal room, the plant is a total loss. At the time of the fire the factory was being repaired and put into operating condition in preparation for the coming grinding season. The estimated loss due to the fire is placed at \$1,500,000.

Mr. Joseph B. Harris, General Manager of the Cuban-American Sugar Company, stated that he did not believe the fire was caused by a saboteur as it would have been very difficult for an outsider to enter the plant due to careful guarding of the place, and workers of the plant would be unlikely to damage it since they would only be depriving themselves of employment.

Mr. Harris stated that the factory employed about 200 workers during the sugar harvest season; that the daily capacity of the mill was 2,300 sacks; and that the estimated production for the current season was to have been 170,000 sacks.

⁸³ Not printed.

⁸⁴ This mill was third in size among the six Cuban-American Sugar Company mills and accounted for about 11 percent of the company's total production.

There is also enclosed a clipping ⁸⁷ from the local vernacular newspaper, *El Mundo*, of today's date giving an account of the fire and its effect on the coming sugar crop. It will be noted that according to this account, the damage was not so extensive as at first reported, and that it was possible the mill could be repaired and operations started in about forty-five days. The newspaper also states that the damage probably will not exceed \$150,000, and that the number of workers affected by the holocaust totaled about 600. These figures are in direct variance with those given by Mr. Harris. The article stresses the fact that there had been no disagreement between the company and the employees. Most of the remaining facts cited in the clipping are the same as those included in Enclosure no. 1.

Further details regarding this fire will be forwarded to the Department when they become available.

Respectfully yours,

For the Ambassador:

ROBERT P. JOYCE

Second Secretary of Embassy

837.61351/3669

The Ambassador in Cuba (Braden) to the Secretary of State

No. 2260

HABANA, February 19, 1943.

[Received February 24.]

SIR: I have the honor to refer to my despatch no. 2242 of February 18, 1943, and enclosure no. 2 ⁸⁸ thereto reporting the contemplated action of the Prime Minister ⁸⁹ to issue a decree whereby the Cuban Government would take over the Tinguaro property and reconstruct the mill thereon. It will be recalled that this mill belongs to the Cuban-American Sugar Mills Company and was approximately 50% destroyed by fire several weeks ago.

Mr. Kaiser, ⁹⁰ President of the company, arrived in Habana about the middle of January and had a meeting with the Prime Minister on February 5. At this gathering, which was also attended by the company's attorney, Dr. Arturo Mañas, the Prime Minister strongly urged that the company reconstruct the mill in order to give employment to the workers therein. Mr. Kaiser stated his belief that his directors would be unwilling to do this unless they were assured by the Cuban Government that this property, which he claims has been unprofitable, could be placed on a basis where it could operate without loss, and to this end he demanded as a

⁸⁷ Not reprinted.

⁸⁸ Neither printed.

⁸⁹ Ramón Zaydín.

⁹⁰ David Keiser.

quid pro quo for his company's carrying out its reconstruction that the government assign an additional quota to the property and obtain a reduction in railroad freight rates for it. The Minister replied that he would favorably consider such action once the mill had been reconstructed by the company, but that unless this work were commenced forthwith the government would be compelled to intervene, take over the property, operate it for a period and reconstruct the mill itself for the company's account.

On February 12 the Prime Minister advised me that the President ⁹¹ had ordered him to intervene in the mill immediately, and to this end a decree was being drafted. The Prime Minister also expressed great annoyance because despite Mr. Kaiser's promise to consult with his Board of Directors in New York, a week had passed and Mr. Kaiser had not even left Habana.

The following day Mr. Kaiser called on me, and I expressed my regret that he had not done so before since probably my good offices might have been more effective if I had been consulted before matters had reached such an impasse with the Prime Minister. However I was able to induce the Prime Minister to defer any action until a more thorough discussion had been had.

Accordingly on February 15 I attended a meeting at the Prime Minister's office at which in addition to Dr. Zaydín and myself there were present Minister of the Presidency López Castro, Mr. Kaiser and Dr. Mañas.⁹² The Prime Minister still demanded that the company agree forthwith to reconstruct the mill and said that otherwise the decree which he held in his hand would be issued immediately giving effect to the government's intervention. Mr. Kaiser refused to commit himself but indicated that his directors would consider it a better course for the company to collect approximately \$400,000 of insurance covering the loss by the fire, to have its cane ground in other mills in the vicinity and not reconstruct a plant which had been a losing venture for fifteen to twenty years with the sole exception of 1942.

I pointed out to Mr. Kaiser that the government was faced with a difficult social and political problem, that neither the State Department nor this Embassy could do more than exercise good offices unless it should be established at some time that there had been a denial of justice⁹³ and that this might be difficult to do since the Cuban Constitution provides that inherent in property rights are social obligations. I also pointed out that intervention in this property might have repercussions on his company's four other centrals⁹⁴ and on American investments in the sugar industry in general. I said that to avoid all of the

⁹¹ Fulgencio Batista y Zaldívar.

⁹² Arturo M. Mañas, consulting lawyer.

⁹³ For explanation of this term, see footnote 49, p. 124.

⁹⁴ Sugar mills.

disagreeableness, including the possible criminal suits alleging arson in the case of the fire, that I felt the company should be willing to make some effort to ease the Prime Minister's problem and that this, I thought, might be done if the company would agree, pending its reaching a decision with respect to reconstruction, to pay normal wages to its employees who had been deprived of work by the fire.

On the other hand I explained to the Minister that in view of our stringent laws I felt Mr. Kaiser was entirely accurate in his allegation that he could not take any action without the prior approval of his Board. I explained Mr. Kaiser's delays as misunderstandings. I expressed the hope that the Minister's problem from the social and political aspects might be temporarily assuaged through the payment of wages I had suggested to Mr. Kaiser.

It required several hours to accommodate the differing viewpoints of the Prime Minister and Mr. Kaiser, but I am now glad to enclose copy of Acta dated February 16⁹⁵ from which it will be noted that the intervention in the mill has been deferred and that Mr. Kaiser has through February 23 in which to advise whether or not the company will pay its mill workers the normal wages they might have expected this season. In any event these wages will be paid through February 23, and the company will have until March 9 to determine whether it will or will not reconstruct. If it should decide not to reconstruct then the government may intervene, but will not take over company revenues unless the company is relinquished from the obligation to pay wages.

That even this temporary solution has eased the situation is indicated by the following telegram which has just been received:

"Concentración trabajadores y pueblo felicita su actuación en el grave problema central Tinguaro.

"Sindicato Central Tinguaro".⁹⁶

I sincerely hope that the company Board of Directors will decide to reconstruct the mill, particularly as the Prime Minister has promised Mr. Kaiser in Dr. Mañas' and my presence that the government will do its utmost to improve his corporation's earnings. While there is no question that there are too many sugar mills operating on this island, it is also true that through the years communities have been built up around the centrals so that their sudden cessation, as in the present instance, would entail severe hardship on the workers, and undoubtedly a social obligation does devolve on these sugar companies.

⁹⁵ Not printed; it was a formal memorandum of a conversation that took place on February 16 between Zaydín, López Castro, Keiser, and Mañas in which the Cubans presented a 9-point statement of their idea of the Company's obligations to its workers and in which Keiser explained that company action must await decisions of the Board of Directors in New York.

⁹⁶ "The mass of workers and people praise your action in the serious Tinguaro Mill situation. Tinguaro Mill Syndicate."

In my opinion this Tinguaro affair has vividly brought to the fore the necessity which exists for sometime effecting a complete reorganization of the sugar industry in Cuba.

Respectfully yours,

SPRUILLE BRADEN

837.61351/3868

The Ambassador in Cuba (Braden) to the Secretary of State

No. 2951

HABANA, April 30, 1943.

[Received May 7.]

SIR: I have the honor to refer to my despatch No. 2545 [2856] of April 23, 1943⁹⁷ and previous correspondence relative to Central Tinguaro of the Cuban American Sugar Company, and to report that Mr. David Keiser called at the Embassy yesterday and informed me that it is not the intention of his Company to rebuild the mill.

For reasons with which the Department is already familiar, the Company concludes that it would be uneconomic to reconstruct Tinguaro, which operated for nineteen out of the last twenty years at a loss, and Mr. Keiser is now negotiating with Mr. Edward G. Miller, head of the Compañía Azucarera Atlántica del Golfo, for the sale of the property with the understanding that the cane quotas would be transferred to one or another of the Atlántica mills in the vicinity, and that the Tinguaro mill itself would not be rebuilt. No agreement between the companies has yet been reached, but Mr. Keiser characterized the negotiations as "promising." (I have received similar information from Mr. Crosby of Atlántica.)

I pointed out to Mr. Keiser that the decision not to rebuild is directly counter to the announced intentions of the Prime Minister, and moreover that Dr. Zaydín has expressed himself recently as somewhat irritated over Mr. Keiser's failure to abide by the terms of the Acta of February 16 last⁹⁸ (please see despatch No. 2260 of February 19, 1943), under which Mr. Keiser had agreed to inform the Prime Minister of the intentions of his Company within a period of three weeks. A further ingredient of the Prime Minister's annoyance is the altercation over the number of days' pay to which the workers are entitled under the Acta, it being Dr. Zaydín's contention that had the mill operated, the *zafra*⁹⁹ would have lasted approximately 50 days, whereas Mr. Keiser has thus far declined to pay the wages of the *batey* workers,¹ 368 in number, for more than 41 days. (Dr. Mañas in a private conversation was somewhat critical of Keiser for not adopting a more conciliatory attitude on this point.)

⁹⁷ Not printed.

⁹⁸ See footnote 95, p. 200.

⁹⁹ Supply of cane.

¹ Mill hands.

Mr. Keiser went on to say that the Prime Minister had visited Tinguaro in company with Sr. López Castro and a Cuban engineer on April 17 last, on which occasion the Prime Minister declared publicly to a crowd of several thousand persons, including Tinguaro workers, that the Government would see to it that the mill is in operation next year. In this connection Dr. Zaydín is reported to have said "Next year I will be drinking guarapo with you instead of coffee." Furthermore, the Government engineer has apparently reported that the damage was far less than at first supposed, that the machinery is practically all in usable condition, that no parts or materials will have to be imported from abroad, and that it will be a relatively small matter to put the mill in working condition. Mr. Keiser denied this, stating that a number of parts, such as the heavy flywheels, were subjected to extreme heat which might render their continued use extremely dangerous. However, Mr. Keiser admitted that the Chief Engineer of his Company has not yet made an inspection of Tinguaro (the fire occurred last January).

Finally, Mr. Keiser observed that there are no legal provisions which would authorize the Government either to seize the mill or to force his Company to rebuild it.

I spoke to Mr. Keiser with considerable frankness. I told him that from every economic point of view I agreed with him 100 percent in his estimate that Tinguaro, on its record, is probably not worth rebuilding. I adverted to numerous speeches and private conversations during the past year, in which I had advocated a basic reorganization of the Cuban sugar industry, which would include the abandonment of a number of marginal and submarginal mills as well as the removal from the books of the non-grinding mills. Unless some such reorganization takes place, I stated that I am not optimistic concerning the future of the industry here, but I admitted that it would probably take little less than an economic earthquake to bring about such a reorganization. Conceding that the Prime Minister may have been somewhat reckless in the statements he is reported to have made at Central Tinguaro, nevertheless it is a fact that the Cuban Government is faced with increasingly difficult social problems resulting from wartime conditions and the declining level of commercial activity. I said that I would discuss the matter again with the Prime Minister as soon as the latter recovers from his present illness, but that I felt Mr. Keiser should in the meantime make every effort to obtain local support. Specifically I said that he should discuss his problem frankly with the Association of *Hacendados*² with a view to eliciting their endorsement of the proposed sale. In that connection I mentioned the effectiveness of the work of the

² Association of Cuban Sugar Mill Owners.

Asociación Nacional de Industriales de Cuba in the matter of the recent Bacardí³ strike. I suggested that it might be equally effective should Mr. Keiser obtain the backing of organized sugar labor, which he could seek to do on the grounds (1) that labor involved in cutting, hauling and grinding of Tinguaro cane by other mills would represent no reduction, and (2) that Keiser was prepared to continue to make every effort to find jobs for the Tinguaro *batey* workers.

Mr. Keiser appeared to be impressed by these suggestions, and he stated that he would promptly investigate the possibilities.

With respect to *batey* labor, Mr. Keiser informed me that he has managed to place fifteen men with mechanical training with the Nicaro Nickel Company, that he is endeavoring (without success thus far) to interest others in peanut planting, and finally that he had obtained fifty Tinguaro volunteers who desire to proceed to Florida. In the last connection he showed me a cable from his New York office to the effect that this plan, which had apparently been approved by all the interested agencies of our Government, has now been blocked by the Attorney General in Washington. I told Mr. Keiser that I was somewhat surprised to receive this information in view of the recent expressions of interest on the part of our Government in the utilization of Cuban labor in the United States, and that I would telegraph the Department of State requesting information in the premises. That message is my telegram No. 278 of April 29, 8 p. m.⁴

Respectfully yours,

SPRUILLE BRADEN

837.61351/4086

*Memorandum by Mr. George F. Scherer of the Division of the American Republics*⁵

[WASHINGTON,] July 15, 1943.

STATUS OF CENTRAL TINGUARO

The Embassy at Habana reports, in despatch no. 3745 of July 8, 1943,⁴ that the Cuban Government has brought suit against the Cuban-American Sugar Company, alleging that the fire of early 1943 destroying most of the Central Tinguaro was of incendiary origin. The company has employed an impressive array of legal talent which it hopes will cause the case to be resolved favorably in the very near future.

Mr. Keiser of the company is endeavoring to close a deal with Mr.

³ Cuban-owned rum plant in Santiago.

⁴ Not printed.

⁵ Addressed to Philip W. Bonsal, Chief, and to Gerald Keith, Assistant Chief, Division of the American Republics.

Miller of the Atlantica, by which the latter would dismantle the mill. The Government objects to this course, maintaining that the mill should be rebuilt and continued in production. As an incentive, the Government indicates it may assist in the reduction of the freight rate and grant an additional quota of 30,000 bags (potentially dangerous move as it would upset existing quotas).

The Embassy has indicated to Dr. Mañas that it considers the resumption of grinding as uneconomical, owing to the unsuccessful record of the mill over a considerable period. Mr. Briggs⁷ mentioned to Dr. Mañas that he would be pleased to present his views to the Prime Minister at a suitable time.

I agree with Mr. Briggs that it appears wholly desirable to remove this uneconomic producer from the Cuban sugar picture.

On the telephone today Mr. Briggs said this case is getting very hot. The Government is evidently forcing an early decision.

G[EORGE] F. S[CHERER]

837.61351/4219 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, September 22, 1943—7 p. m.

[Received 10:50 p. m.]

632. Embassy's No. 627, September 21, 8 p. m.⁸ Local representative of Tinguaro reports that he has orders from his company "to resist so far as possible" any Government action taken in accordance with presidential decree appointing interventor.⁹ By "resistance" he presently means such actions as reducing bank accounts to a minimum and serving notice on insurance, railroad and power companies and Tinguaro employees that company does not admit legality of Government occupation and will not be responsible for indebtedness contracted by the interventor.

The Tinguaro representative states he has not obtained a copy of the decree in question which has not yet been promulgated; however, the interventor has promised to inform the company before he leaves for Tinguaro to take over.

Tomorrow morning I propose formally to request Minister of State¹⁰ to keep the Embassy advised in this matter and simultaneously to inform him of our Government's position as expressed in Department's 726, July 17, 9 p. m.¹¹

BRADEN

⁷ Ellis O. Briggs, Counselor of Embassy.

⁸ Not printed.

⁹ Cuban Decree No. 2716, published in *Gaceta Oficial*, September 24, 1943.

¹⁰ Emeterio S. Santovenia.

¹¹ Not printed; Department policy, as presented to the Ambassador in this telegram, was conveyed to the Cuban Government in essentially the same words in the Ambassador's note No. 1029 of September 23, *infra*.

837.61351/4230

The American Ambassador in Cuba (Braden) to the Cuban Minister of State (Santovenia) ¹²

No. 1029

[HABANA,] September 23, 1943.

EXCELLENCY: I have the honor to refer to the case of the Tinguaro Central belonging to the Cuban-American Sugar Company, an American concern, and to my several conversations during the past many months with the Prime Minister regarding this matter. It had been my hope that a satisfactory solution to the problem might have been reached, as a result of ample time having been afforded for consideration of the matter when the company, early this year, agreed to pay the mill labor an amount equivalent to what would have been received by the workers had the mill not been put out of operation by fire.

In view of my Government's interest in any developments connected with this situation, I should appreciate receiving any information which Your Excellency can give me. Presently it would be helpful if I might have the text of the Presidential Decree which, according to the press, provides for the appointment of an interventor to see that reconstruction is made and normal operation of the mill resumed either by the company directly or, failing this, at its own expense.

My Government earnestly hopes that an amicable settlement of this entire matter may be reached. However, in the event that the Cuban Government should feel obliged, in effect, to expropriate in whole or part the company's mill or other property then, as in all such cases, the attitude of my Government would be that, while recognizing the right of expropriation, prompt, adequate and effective compensation for its citizens affected by that right would be expected.

I avail myself [etc.]

SPRUILLE BRADEN

837.61351/4243

The Ambassador in Cuba (Braden) to the Secretary of State

No. 4634

HABANA, September 29, 1943.

[Received October 6.]

SIR: Referring to my despatch No. 4582 of September 24, 1943 ¹³ and previous correspondence relative to Central Tinguaro, I have the honor to transmit the official text (*Official Gazette* No. XVIII of September 24, 1943) and an English translation of same, of the

¹² Copy transmitted to the Department by the Ambassador in his despatch No. 4582, September 24; received September 28.

¹³ Not printed.

Decree which provides for the seizure of the mill and property by an interventor of the Cuban Government.¹⁴

The decree is an interesting document and in my opinion merits careful perusal, if for no further reason than that it may lead to difficult and perhaps unpleasant developments before the problem is finally settled. As already reported, the interventor (Sr. José Calavechia, an Italian-born Cuban engineer), has extremely wide powers which include the seizure of the property, the reconstruction of the mill and the operation of the enterprise for an indefinite period—all at the expense of the owner, the Cuban American Sugar Company. Moreover, the Company cannot regain possession without entering into commitments as to future operation considered satisfactory by the Cuban Government, and reimbursing the Government in full for all expenses incurred during the period of intervention.

The text of the decree, particularly its preamble, has obviously been drafted with an eye to the political situation. Citation is made to the Government's wartime emergency powers as authorizing the Government's step, but the various paragraphs are devoted primarily to the "social responsibility" of mill owners, the social functions performed by sugar mills, the rights of workers, the importance of Tinguaro to the economic life of its zone, et cetera, with no reference to the uneconomic operation of the mill (alleged by the Company—I am seeking specific figures), or the fact that since the Tinguaro cane could be ground by other mills in the vicinity the only workers who would really be affected if Tinguaro were abandoned would be the 368 mill employees and their families. While obviously it is desirable that steps be taken on behalf of these workers, it appears at least debatable whether the seizure of private American property in the circumstances set forth in the decree, represents a solution. Furthermore, the decree does not even approach the basic problem of the economy of the sugar industry of Cuba, or the future of that industry in terms of high costs resulting from artificial maintenance of marginal units.

All in all I can only consider the Government's seizure of Tinguaro as an expedient adopted for primarily political purposes, and if it is resisted by the Company (as appears to be its intention) the prospects are that protracted difficulties may ensue. Finally I am concerned not only with respect to the sugar aspects of the problem but also on the effect of this move—especially should it prove "successful" from the point of view of the Cuban Government—on property rights in general in Cuba. It was for this reason that I drafted my note of September 23 to the Minister of State ¹⁵ in such a way as to leave no doubt

¹⁴ Decree No. 2716.

¹⁵ *Supra*.

in the mind of the Cuban Government concerning the views of my Government relative to expropriation and compensation.

As intimated in previous despatches I do not consider that the blame for the present unfortunate situation can be placed exclusively at the door of the Cuban Government. As a result of my informal steps with the Prime Minister last winter, shortly following the fire, seizure by the Cuban Government at that time was avoided, and an opportunity was given to the Cuban American Sugar Company to come forward with counter proposals and suggestions and to make a genuine effort to meet the legitimate desire of the Cuban Government to solve the social-economic (and political) problem of the Municipality of Perico, of which Central Tinguaro is the principal source of income. Mr. Keiser, President of the Cuban American Sugar Company, agreed to pay the *batey* workers for the period of the *zafra*, which he did to the extent of over 40,000 pesos, but thereafter by his procrastination he unquestionably gave the Prime Minister grounds for irritation and for asserting "recalcitrance" on the part of the Company, notwithstanding numerous warnings which I gave Keiser, supplemented by repeated discussions of the case with Dr. Arturo Mañas, that unless Keiser bestirred himself the Prime Minister would lose patience. During my absence in Washington last June and July the matter was brought urgently to the attention of both Keiser and Mañas by Mr. Briggs, and very shortly after my return to Habana on July 23, I again urged Keiser to come to Habana, since it then appeared that unilateral action might be taken shortly after the then-scheduled opening of the Special Session of the Cuban Congress in the first week of August. It is true that Mañas has spent a large part of the past two months in Washington in connection with the Cuban Government sugar matters, but I do not regard his absence as any valid reason for the non-appearance of Keiser himself in Habana.

In short, I believe that the record indicates inescapably that Keiser has given grounds to the Cuban Government for alleging delay, resistance, et cetera, which contributed to provoking the seizure of the Tinguaro property.

Dr. Mañas' "personal letter" to Dr. Zaydín¹⁶ (the text accompanied despatch No. 4582) in which he established as conditions prerequisite to reconstruction by the Company a permanent addition to Tinguaro quotas of 40,000 bags and a reduction of 50 per cent in railway freight charges, did nothing to advance the problem. With respect to the additional quota, Mañas is perfectly well aware that no such increase could be given one mill without igniting an explosion of protest from other *hacendados*, each of whom would probably argue with equally vehement eloquence that his proportional participation in future crops

¹⁶ Letter dated September 21, 1943, not printed.

should similarly be raised. Mañas' suggestion even involved the danger of encouraging the Cuban Government to reopen the whole question of quotas, as established seven years ago by Decree-Law No. 522, to the satisfaction of the industry as a whole. With regard to freight rates, Tinguaro may have a case for special consideration, but insofar as I am aware the Company has never, between January 23 last when the mill was damaged by fire, and September 24 when the decree was published, submitted any detailed figures or analysis in support of its contention.

I conclude therefore that whereas the unilateral action taken by the Cuban Government was no doubt ill-advised and probably uneconomic, as well as responsive principally to short-term political consideration, nevertheless the Company must bear a substantial share of the responsibility for its failure to take steps which in my judgment might well have avoided this seizure.

Now that the issue has been joined, it is difficult to foresee how either side can readily extricate itself. I believe that our Government should stand on the principles set forth in my note to the Minister of State of September 24 [23], at the same time exercising our continued informal good offices in an effort to work out some practical compromise solution.

A complicating factor is the pending charge of culpability in regard to the fire which the Cuban Government has brought against the local Manager, Mr. Harris, and certain Tinguaro personnel. I do not believe that Mr. Keiser has thus far viewed this case and the possibility of a verdict of guilty (with attendant highly unfavorable publicity) with sufficient seriousness.

Respectfully yours,

SPRUILLE BRADEN

837.61351/4353

The Ambassador in Cuba (Braden) to the Secretary of State

No. 4686

HABANA, October 4, 1943.

[Received October 9.]

SIR: Referring to previous correspondence concerning Central Tinguaro, especially my despatch No. 4582 of September 24, 1943¹⁸ transmitting a copy of my note to the Foreign Office¹⁹ in the premises, I have the honor to enclose copy and translation of the reply,¹⁸ which I have received from the Minister of State.

This reply is merely an acknowledgment stating that the "matter is the subject of the preferential attention of the pertinent authori-

¹⁸ Not printed.

¹⁹ Note No. 1029, September 23, p. 205.

ties . . ." ²⁰ and that "it will be a pleasure" to inform me in due course of their decision.

Respectfully yours,

SPRUILLE BRADEN

837.61351/4454 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, December 22, 1943—midnight.

1085. The Department appreciates the careful delineation of the Central Tinguaro case presented in your Airgram no. A-2400, December 1, 4 p. m., ²¹ which has been of great assistance.

Since the Cuban courts are now reviewing the cases presented by the Cuban-American Sugar Company concerning the interventorship of the mill, the Department does not feel warranted in commenting on the legality of the Cuban Government's action. It does wish to point out, however, that it has observed with concern the manner in which Cuban officials tend to impugn the Cuban-American Sugar Company, as evidenced particularly by the pamphlet, *El Caso de Central "Tinguaro"*, ²² edited by the Cuban Ministry of Agriculture, and other statements.

The Department's position with respect to expropriation of the property remains unchanged. It will, of course, look to the Cuban Government for just, prompt and adequate compensation in case of violation of property rights including damages to the Company property subsequent to its occupation by representatives of the Cuban Government.

The Department's position in the matter has, it is believed, been consistent with yours, in the sense of endeavoring through informal means to promote a direct settlement between the Cuban Government and the Cuban American Sugar Company. The Department has not felt called upon to express an opinion as to the position assumed by the Cuban Government to the effect that the reconstruction of the mill is in the public interest. It does not seem to the Department that that is a matter calling for an expression of opinion by this Government. However, in view of the Cuban Government's position, it seems that the direct settlement toward which you have worked so painstakingly could only be on a basis of reconstruction. The Department has been impressed with the fact that the concessions, which the Cuban American Sugar Company has indicated would be acceptable to it in connection with reconstruction, seem highly unrealistic.

²⁰ Omission indicated in the original despatch.

²¹ Not printed.

²² Copy transmitted to the Department by the Ambassador in his despatch No. 5296, December 1, not printed.

Officials of the Department have urged upon the Cuban Ambassador and López Castro the desirability of a settlement of this case which would avoid its being moved into the field of an international claim. The Department will be interested in your views as to whether any progress has been made since Mr. Keiser's arrival in Cuba.

HULL

837.61351/4504

Memorandum of Conversation, by the Chief of the Division of the American Republics (Bonsal)

[WASHINGTON,] December 23, 1943.

In response to my inquiry, Dr. Mañas gave me the following information regarding the Tinguaro situation. He said that the engineer named Calcavechia, who had been placed in charge by the Government, had apparently done an honest piece of work, expending approximately \$175,000 and resisting a certain amount of political pressure which might have led to unwise or wasteful spending. Dr. Mañas added that a friend of his named Parajon, also an engineer, had stated that while the job could not be considered a permanent piece of reconstruction work, it is probable that the mill can function for one or two seasons.

Dr. Mañas then went on to describe the status of the court action in the case. He said that the fact that the court denied by the very close vote of nine to eight the Company's request for the Cuban equivalent of an injunction led him to believe that the prospects of a favorable decision were fair, although he did not express any certainty on this point. He also told me that Mr. Keiser was trying to sell the mill and that he, Mañas, hoped he would be successful as this would be a good solution for everyone. There appears to be a man named Blanco who is interested, possibly at the suggestion of the Government. The price mentioned is between \$1,000,000 and \$1,500,000, the principal asset being the extensive cane lands owned by the Company.

837.61351/4492 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, December 27, 1943—5 p. m.

[Received 9 : 04 p. m.]

861. Further comments on the Tinguaro case were contained in my telegram number 851, December 21, 5 [8] p. m.,²³ which crossed the Department's number 1085, December 22. In connection with

²³ Not printed.

the latter it seems to me that the statement that a settlement "could only be on the basis of reconstruction" overlooks the problem of the mill's unprofitable record and the moral and legal responsibilities of the directors to the stockholders. To my mind reconstruction by the company in the light of that record would have been less realistic than Keiser's suggestions for increased quota and reduced railroad tariff and that the Cuban Government's refusal even to consider anything except reconstruction (the establishment of a different industry at the mill site or the transfer of Tinguaro labor elsewhere for example) has rendered any satisfactory solution exceedingly difficult.

Unless the mill should be sold or unless Keiser concludes that the prospect for a few years of large crops (and hence perhaps profitable Tinguaro operations) is such as to warrant his agreeing to operate I see little prospect of avoiding further controversy²⁴ which may well lead to an international claim. For this (as well as for the reasons cited in my recent reports) I believe we should carefully refrain from any action that could be misinterpreted in the sense that our Government in the slightest degree condones this demagogic and irresponsible seizure of private American property by the Cuban Government.

BRADEN

EFFORTS BY THE UNITED STATES TO AID CUBA IN PRICE STABILIZATION

S37.5017/26

The Ambassador in Cuba (Braden) to the Secretary of State

No. 2224

HABANA, February 16, 1943.

[Received February 19.]

SIR: I have the honor to report in connection with the present sugar negotiations,²⁵ that the Director of the Cuban Office of Price Regulation and Supply²⁶ states confidentially, that Cuba may be forced to raise its ceiling prices on certain vital food products such as rice, bread, and lard, as a result of the increased c. i. f. Habana prices on imports from the United States. He states that the increased prices in the United States during December to February and the present shipping costs, will make necessary an increase in retail prices.

Furthermore, it is feared that an increase in Cuba's ceiling prices on these most essential food products, if made immediately after the

²⁴ The controversy continued into 1944 and made more difficult the negotiations in January and February for purchase by the United States of Cuban alcohol and molasses. It was solved in February 1944, by the sale of Central Tinguaro to an all-Cuban group of investors, headed by Julio Lobo. Government control over the mill was ended by Decree No. 593 published in *Gaceta Oficial*, No. 141 of March 15, 1944.

²⁵ For correspondence on the purchase by the United States of Cuba's 1943 and 1944 sugar crops, see pp. 151 ff.

²⁶ Carlos Hevia.

Cuban Government has promised to maintain its existing prices, might endanger Cuba's entire program of price control.

It is stated that prices for rice, wheat flour, and lard, in the United States have advanced considerably during 1942 and therefore the United States guarantee not to increase prices above the level during the highest month will not result in any relief to Cuba's present situation because Cuba based its ceiling prices on costs which prevailed earlier in the year.

[Here follow tables of monthly prices c. i. f. Habana for wheat flour, lard, and rice as reported by the ORPA.²⁷]

It is stated that in the case of some exports to Cuba, the United States ceilings have been too flexible to be effective in preventing price increases and that in some cases the present prices offered to Cuba appear to be above the ceilings.

The Cuban Office of Price Regulation and Supply states that the only way in which Cuba can maintain its present price ceilings is to obtain a reduction in (a) United States prices, or (b) in shipping charges. Consequently, it has asked that the United States Government Agencies bear this matter in mind in connection with the commitments made in the present sugar negotiations. Furthermore, ORPA has requested the Embassy to transmit to the War Shipping Administration a request for a reduction in the ocean freight rates from Florida ports to Habana. These rates are now approximately as follows:

Lard.....	74.4 cents per 100 pounds
Flour.....	60.6 cents per 100 pounds
Rice.....	50.5 cents per 100 pounds

These rates from Florida are the same as those for the much longer haul from Gulf ports or North Atlantic ports.

The Embassy has discussed this matter with the Habana representative of the War Shipping Administration and feels that a reduction in the rates from Florida ports to Habana should be made, if possible, especially in the case of these three important basic food commodities.

Respectfully yours,

SPRUILLE BRADEN

837.5017/34

The Secretary of State to the Ambassador in Cuba (Braden)

No. 1513

WASHINGTON, April 16, 1943.

The Secretary of State transmits for the information of the Ambassador copies of a memorandum dated April 6, covering the under-

²⁷ Oficina de Regulación de Precios y Abastecimientos (Cuban Office of Price Regulation and Supply).

taking of this Government and of the Government of Cuba with respect to the maintenance of prices on rice, wheat flour, and hog lard, in Cuba.

The text of the memorandum corresponds to the text approved by Dr. Carlos Hevia prior to his departure from Washington, with the exception of the price of wheat flour, which officials of Commodity Credit Corporation²⁸ have now informed Dr. Hevia is to be maintained at \$6.90 per barrel, C. I. F. Habana, when made from United States wheat, and delivered through Tampa, Florida. According to the Department's understanding, Dr. Hevia was informed that savings that may accrue by reason of shipment through other ports, such as New Orleans, will be for the benefit of the buyer.

The Ambassador may wish to review with Dr. Hevia the provisions of the memorandum.

[Enclosure]

MEMORANDUM

In the recent exchange of memoranda between the Government of the United States and the Government of Cuba, both Governments agreed to take appropriate measures with respect to price stabilization in Cuba in 1943. The stability of the Cuban economy is a matter of grave concern to both Governments. This memorandum is for the purpose of agreeing upon a framework of reference wherein operations can be undertaken and mechanisms can be devised to meet the commitments in principle of the Government of the United States as to the maintenance of the price of rice until September 1, 1943 and wheat flour and hog lard landed in Cuba from the United States during the remainder of 1943; and the concomitant undertaking of the Government of Cuba to use its best efforts to maintain wholesale and retail prices in Cuba at current levels on such imports of rice, wheat flour and hog lard, as well as for the same food products produced in Cuba, and also edible oils, meat, milk, beans, charcoal and alcohol.

Since the cost of living of the Cuban people is the basic question involved, it is, of course, understood that the maintenance of prices at existing levels by the Government of Cuba means complete enforcement of legal ceilings to the end that the Cuban consumers receive the actual benefit of the price undertakings of the Government of the United States. It would not be consistent in principle for the Government of the United States to continue to maintain agreed levels of prices for rice, wheat flour and hog lard shipped to Cuba, if it should develop that as to these commodities effective enforcement of price ceilings is not carried out and the Cuban consumers do not, in

²⁸ An agency of the United States Government, consolidated within the War Food Administration after April 19, 1943.

fact, benefit, to the extent contemplated, by the stabilization undertakings of the Government of the United States.

The Government of the United States seeks, and will continue to seek, the most realistic basis for effective action by both Governments in realizing mutual objectives. Therefore, United States Department of Agriculture will undertake the following:

Rice: Until September 1, 1943, the price of rice exported from the United States to Cuba, delivered Habana, Cuba, will not exceed a price of \$6.96 C. I. F. Havana for 50% broken Prolific. Charges when sent through Tampa shall not exceed the following:

OPA ²⁹ ceiling f. o. b. mill.....		\$5.55
New Export Premium—4%.....		.22
Rail freight mill to Tampa.....	.56	
Wharfage .....	.04	
Switching .....	.005	
U. S. Certificate.....	.015	
Forwarding .....	.015	
Marine Insurance.....	.03	
Ocean freight.....	.355	
Ocean freight surcharge.....	.16	
Landing charge.....	.10	1.19
		<hr/>
C. I. F. Havana Price.....		\$6.96

The rate for war risk insurance shall not exceed that in effect at present.

The prices of other varieties of rice shall be those established by the existing OPA regulations and the above charges except that charges for transportation will be those allowed by OPA regulations from the point of origin of the shipment.

It is understood that Cuba will not make purchases of rice in the United States at C. I. F. Havana prices higher than those provided for above without prior approval of the United States Department of Agriculture.

Board of Economic Warfare will use its best efforts to secure maximum practical movement of rice through Gulf ports.

The quantities of rice involved in this undertaking shall not be in excess of the 325,000,000 pound allocation made by the Combined Food Board ³⁰ to Cuba for 1943, after deducting purchases already made from United States, and from other sources in excess of 50,000,000 pounds. (The remainder is estimated as 98,000,000 pounds.)

Wheat Flour: That until January 1, 1944, for a quantity not to exceed 700,000 bbls., to be contracted for before April 22, 1943, bread

²⁹ Office of Price Administration.

³⁰ United States—United Kingdom planning board for the expeditious utilization of the food resources of the United Nations in the prosecution of the war. It was composed of one member each from the United States, Great Britain, and Canada under the chairmanship of Secretary of Agriculture Claude R. Wickard.

wheat flour of the quality normally used by bakeries in Cuba will be available at a price of \$6.90 per bbl. C. I. F. Havana, when made from U. S. wheat, and delivered through Tampa, and a price of \$7.22 per bbl. C. I. F. Havana when made from Canadian wheat flour. Payment to be made by sight draft and consular fees for buyer's account. War risk insurance charges shall not be higher than the present rates. It is understood that Cuba will not make purchases of flour in United States prior to April 22, 1943 at C. I. F. Havana prices higher than those provided for above without the approval of the United States Department of Agriculture.

Hog Lard: Until January 1, 1944 the price of refined hog lard exported from the United States to Cuba in carloads, tierces originating in Kansas City shall not be higher than \$17.53 per hundred pounds C. I. F. Havana. Charges shall not be higher than the following:

	<i>Per 100 lbs.</i>
OPA ceiling (carload tierces—Kansas City)	\$14.30
Export premium (figures at 7% though most shippers get less)	1.00
<hr/>	
OPA Price	15.30
Rail freight, Kansas City to Tampa . . . . .	.90
Switching charge—Tampa . . . . .	.045
Forwarding . . . . .	.34
Ocean freight to Havana . . . . .	.88
Marine Insurance . . . . .	.06
<hr/>	
C. I. F. Havana Price	\$17.53

The prices of other types of lard shall be those established by the existing OPA regulations and the above charges except that charges for transportation shall be those allowed by OPA regulations from the point of origin of the shipment.

The rate for war risk insurance shall not exceed that in effect at present.

It is understood that Cuba will not make purchases of hog lard in United States at C. I. F. Havana prices higher than those provided for above without prior approval of the United States Department of Agriculture.

The quantities of hog lard involved in this undertaking shall be the remainder of the 45,000,000 pound allocation of the Combined Food Board to Cuba for 1943 after deduction of purchases already made in the United States and other countries. (The remainder is estimated as 34,000,000 pounds.)

The Cuban Government will take appropriate measures to prevail upon Cuban lard importers to purchase the third quarter allocation for 1943 (10,000,000 pounds) during the second quarter of 1943.

APRIL 6, 1943.

837.5017/44

The Assistant Secretary of State (Acheson) to the Deputy War Shipping Administrator (Douglas)

WASHINGTON, April 26, 1943.

MY DEAR MR. DOUGLAS: This Government has committed itself to an effort to stabilize for the remainder of the current calendar year, the landed cost of certain commodities important to the cost of living in Cuba. Wheat flour is one of the commodities involved.

In order to make the commitment regarding wheat flour effective, an arrangement has been made whereby domestic mills will contract during a two-week period, ending April 29, to deliver not more than 700,000 barrels of flour, at a base price not to exceed \$6.90 per barrel, c. i. f. Habana. This base price relates to a movement through Tampa, and differentials in cost due to revised routing are for the account of the Cuban buyer.

The freight differentials arising out of a change in marine rates are also, by the custom of the trade, for the account of the buyer. However, an increased cost resulting from a revision of marine rates would violate the spirit and the letter of the arrangement that has been entered with the Cuban Government. War risk insurance is also for the account of the buyer, according to the custom of the trade, and this Government has given the Cuban Government an assurance that the rate for war risk insurance shall not exceed that in effect at present. Should there be a modification in marine freight rates or war risk rates, it would thus be incumbent upon some agency of this Government to compensate the Cuban buyer.

The Department understands that there is no current intention to modify either the freight rate or the war risk rate from United States ports to Cuban ports. However, it has been felt that you should be advised of the arrangements that have been made so that you will have knowledge of the difficulties that would arise should the question of these rates be considered at any time during the current calendar year.

Sincerely yours,

DEAN ACHESON

837.5017/65

Memorandum by Mr. George F. Scherer of the Division of the American Republics to the Assistant Chief of the Division (Walmsley)

[WASHINGTON,] June 22, 1943.

MR. WALMSLEY: Under date of May 25 the Embassy at Havana submitted report no. 698 on the price stabilization situation in Cuba.³¹

³¹ Not printed.

Special emphasis is laid on the prices of wheat, flour, hog lard and rice, which were guaranteed by this Government as far as its exports to Cuba are concerned.

After special arrangements for an increased subsidy were made by CCC,³² Cuba was able to contract for a sufficient amount of wheat flour to reach the end of the year without an increase in ceiling prices. The ceiling will be maintained although bakers are protesting the narrow margin between the cost of flour and the price of bread.

No trouble appears to lie ahead with regard to hog lard prices and supplies.

Rice has presented a real problem especially from the supply point of view. The freezing of sixty percent of stocks in the United States gulf area has removed Cuba's normal supply of cheap rice. CCC and BEW³³ prodded by State, have made successful efforts by supplying California rice at an apparently reasonable price and more California rice is to be made available. WSA³⁴ has cooperated in giving a reduced freight rate to California rice and is making available transportation for the movement of certain Ecuadoran rice to Cuba.

It now appears that Cuba will reach the new Gulf shipping season of early October with satisfactory, though curtailed, rice stocks on hand.

Prices of other articles of Cuban production are being maintained within the Cuban ceilings with few exceptions, the most notable of which is beef, reported to be selling from ten to forty percent above ceiling. Since the date of the Embassy's attached report, a modest upward adjustment in the ceiling on beef products has been put into effect by ORPA.

837.5018/69

*The American Ambassador in Cuba (Braden) to the Cuban Minister of State (Santovenia)*³⁵

No. 1155

HABANA, October 25, 1943.

EXCELLENCY: I have the honor to refer to a memorandum approved by representatives of Your Excellency's Government and of my Government on August 20, 1943,³⁶ during negotiations for the sale of Cuba's 1944 sugar crop, which provided *inter alia* that in 1944 my

³² Commodity Credit Corporation.

³³ Board of Economic Warfare.

³⁴ War Shipping Administration.

³⁵ Copy transmitted to the Department by the Ambassador in his despatch No. 5002, November 3; received November 8.

³⁶ Not printed.

Government would take measures designed to assist Your Excellency's Government in stabilizing prices for rice, wheat flour and hog lard similar to the price stabilization measures taken in respect to these basic foodstuffs in 1943.

In recent conversations held in Washington by Ingeniero Amadeo López Castro,³⁷ representing Your Excellency's Government, and officials of my Government, a plan was agreed upon under which my Government would maintain the export prices to Cuba at levels which prevailed in 1943 for United States rice, until September 1, 1944; for United States wheat flour, until January 1, 1945; and for United States hog lard, until September 30, 1944.

In return, it was agreed that Your Excellency's Government would undertake to maintain and effectively to enforce in Cuba the existing wholesale and retail ceiling prices not only for these three commodities, but also for edible oils, meat, milk, beans, charcoal and alcohol, and that if during 1944 the Cuban Sugar Stabilization Institute or its assignees should derive any benefit from increase in the price of raw sugar, as provided in Article 4 (b) of the 1944 Cuban Sugar Crop Purchase and Sale Contract,³⁸ my Government would benefit to a proportionate extent in connection with prices of rice, wheat flour and hog lard.

Since the cost of living of the Cuban people is the basic question involved, Your Excellency's Government will of course understand that the maintenance of prices at existing levels by the Government of Cuba implies effective enforcement of the legal Cuban ceiling prices, to the end that the Cuban consumers may receive the actual benefit of my Government's price stabilization undertakings. It would not be consistent in principle for my Government to continue to maintain agreed levels of prices for rice, wheat flour and hog lard shipped from the United States to Cuba should it develop that Cuban consumers are not benefiting to the extent contemplated by these undertakings.

In accordance with the agreement reached, the United States Department of Agriculture and the War Food Administration will undertake the following:

Rice: Until September 1, 1944, the price of rice exported from the United States to Cuba, delivered Habana, Cuba, will not exceed a price of \$6.96 c. i. f. Habana for 50 percent broken Prolific. Charges when sent through Tampa shall not exceed the following:

³⁷ López Castro was Chairman of the Cuban Sugar Commission that had been negotiating in Washington a contract for the purchase of Cuban sugar and related products.

³⁸ Article 4 (b) described the manner in which increases in the ceiling price of sugar after its import into the United States would be reflected in increased prices for sugar above the contract rate of 2.65 cents per pound.

OPA ceiling f. o. b. mill.....		\$5. 55
Export premium—4 per cent.....		. 22
Rail freight mill to Tampa.....	. 56	
Wharfage .....	. 04	
Switching .....	. 005	
U.S. certificate.....	. 015	
Forwarding .....	. 015	
Marine Insurance.....	. 03	
Ocean freight.....	. 355	
Ocean freight surcharge.....	. 16	
Landing charge .....	. 01	1. 19
		<hr/>
		\$6. 96

The rate for war-risk insurance shall not exceed that in effect at present.

The prices of other varieties of rice shall be those established by the existing OPA regulation and the above charges except that charges for transportation will be those allowed by OPA regulations from the point of origin of the shipment. The regulations now in effect are the same as those existing when last year's negotiations took place. No attempt is made to allocate the varieties of rice which will be imported since it is assumed that the Cuban importers will select those varieties which best suit their particular customers and best fit into the price schedule at the time of purchase.

It is understood that Cuba will not make purchases of rice in the United States at c. i. f. Habana prices higher than those provided for above without prior approval of the United States Department of Agriculture and the War Food Administration.

The Office of Economic Warfare will use its best efforts to secure maximum practical movement of rice through Gulf ports.

The quantities of rice involved in this undertaking shall be in accordance with the allocations made by the Combined Food Board to Cuba for the year beginning October 1, 1943. It is expected that the total allocation will be equal to the 375 million pounds allocated the preceding year. Part of the allocation will be from sources other than the United States, and the United States cannot undertake responsibility if the price at such foreign sources should exceed the agreed price at which United States rice is to be delivered c. i. f. Habana. There is, however, the possibility that the United States might own substantial quantities of rice in foreign countries. Should this be the case, the United States would agree to deliver the allocations made to Cuba from sources other than the United States at the same price as though the rice were being delivered from the United States for similar type and grade.

Wheat Flour: For the calendar year from January 1, 1944, through December 31, 1944, the United States will cause to be made available

to Cuban importers bread wheat flour of a quality normally used by bakers in Cuba at a price of \$6.90 per barrel, c. i. f. Habana, when made from United States wheat and delivered through New Orleans. The quantity involved shall not exceed 1,200,000 barrels. Any purchases made from Canada shall be deducted from the United States commitment. War-risk insurance charges shall not be higher than the present rates. The procedure for handling the above guarantee will be transmitted to Cuba at an early date.

Hog Lard: From October 1, 1943, until September 30, 1944, the price of refined lard exported from the United States to Cuba in carloads, tierces originating in Kansas City, shall not be higher than the following:

OPA ceiling (carload tierces Kansas City)—per	
100 pounds	\$14. 30
Export premium.....	1. 00
<hr/>	
OPA price	\$15. 30
Rail freight, Kansas City to Tampa.....	. 90
Switching .....	. 045
Forwarding .....	. 34
Ocean freight.....	. 88
Marine insurance.....	. 06
<hr/>	
	\$17. 53

The prices of other types of lard shall be those established by the existing OPA regulations and the above charges, except that charges for transportation shall be those allowed by OPA regulations from the point of origin of the shipment.

The rate of war-risk insurance shall not exceed that in effect at present.

It is understood that Cuba will not make purchases of hog lard in the United States at c. i. f. Habana prices higher than those provided for above without prior approval of the United States War Food Administration.

The quantities of hog lard involved shall be the amount allocated to Cuba by the Combined Food Board, and it is expected that proportionately, this quantity will equal or exceed last year's allocation which was 45 million pounds for the entire year. This allocation, however, will be firm only for one quarter at a time, it being understood that any lard secured by Cuba from other sources will be taken into account when the allocation is made for the subsequent quarter. It is further understood that Cuba may be requested to obtain more than a single quarter allocation of lard in one quarter and that should it fail to obtain the directed amount, there will be no obligation to make up the amount missed in subsequent quarters.

I am confident that the foregoing measures will prove a substantial contribution toward the prevention of further increases in the cost of living in Cuba, and that Your Excellency's Government will in turn find it possible to provide assurances to my Government that effective enforcement of ceiling prices will permit the Cuban people to derive therefrom the fullest possible benefits.

Permit me to renew to Your Excellency the assurance of my highest consideration.

(SPRUILLE BRADEN)

837.5018/71

The Ambassador in Cuba (Braden) to the Secretary of State

No. 5536

HABANA, December 28, 1943.

[Received January 1, 1944.]

SIR: I have the honor to transmit to the Department a copy and translation of the reply of the Cuban Government³⁹ to the price stabilization proposals regarding foodstuffs which were advanced by agencies of the United States Government. A copy of the Embassy's note No. 1155 of October 25, 1943, transmitting such proposals to the Cuban Government was forwarded to the Department in Embassy despatch No. 5002 of November 3, 1943.⁴⁰

The reply of the Cuban Government includes a memorandum from the Office for Regulation of Prices and Supply in which that organization describes various situations which prevent it from pledging not to increase during 1944 the ceiling prices for rice, wheat flour, beef, milk and charcoal. Assurances against such price increases were requested in the Embassy's note in return for our assistance in supplying Cuba with rice, wheat flour and lard. The Minister of State now asks the opinion of the United States Government as to what measures are necessary for the proper adjustment of the price stabilization undertaking.

The arguments presented by the Office for Regulation of Prices and Supply may be summed up briefly as follows:

1. *Rice.* Cuban importers have been unable in recent months to purchase their usual types of United States rice with a high broken content, on which Cuban ceiling prices are based. Instead, United States mills have been willing to sell only rice with a low broken content, whose cost makes impossible its purchase and sale under Cuban retail ceilings and thereby contributes toward general disregard of such ceilings. The ORPA believes that, unless the United States can undertake to supply Cuba with its usual types of rice with a high broken content, the ceiling prices in Cuba may have to be raised to cover the

³⁹ Not printed.

⁴⁰ Despatch not printed.

increased costs of the better quality rice. The Embassy's opinion is that the analysis made by the ORPA is essentially correct with respect to the arguments set forth.

2. *Wheat Flour.* The price plan for wheat flour is stated to be the same as during 1943, yet the price for 1944 is based on New Orleans shipment instead of on Tampa, as last year. During 1943, most flour moved through ports other than Tampa, and as Tampa involves the highest freight cost, a considerable saving was made by Cuban buyers. The shift to New Orleans basis eliminates most possibilities for such savings during 1944. ORPA therefore contends that the basis should be shifted to Tampa in order to continue the prices as delivered to Cuban buyers at the same level as in 1943. The Embassy believes that ORPA is not illogical in this attitude, but on the other hand the United States neither in 1943 nor in 1944 assured Cuba anything beyond a maximum price c. i. f. Habana.

3. *Beef and Milk.* Cattlemen and dairymen of Cuba are applying great pressure to the ORPA for an increase in ceiling prices for meat and milk, threatening to stop deliveries and to curtail production if ORPA does not accede to their demands. ORPA so far has resisted such pressure but evidently does not feel sufficiently strong in its position to pledge to the United States that it will not capitulate.

4. *Charcoal.* Retail ceiling prices for charcoal have been ineffective during the past half year. Attempts by the ORPA to gain control by manipulation of producer prices and dealer margins have been unsuccessful. The ORPA realistically recognizes that it may be the best policy to increase the retail maximum in order to place the ceiling price somewhere in line with current selling prices, since enforcement of any lower price has proved impossible.

As the appropriate agencies of the United States Government apparently desired the blanket assurances of the Cuban Government against retail price increases, in return for the United States assistance with price stabilization for rice, wheat flour and lard, the Embassy desires to know whether or not the exceptions made above are acceptable to the United States agencies. It is the Embassy's opinion that a reiteration of our request that there be no price increases might meet with the ultimate acquiescence of the Cuban Government. The result of this, however, would be in all likelihood a complete breakdown of ceiling price enforcement, so that the better policy might be agreement to controlled price increase when demonstrated to be clearly essential.

Respectfully yours,

For the Ambassador:
ALBERT F. NUFER
*Counselor of Embassy for
Economic Affairs*

ASSISTANCE BY THE UNITED STATES IN EFFORTS TO DIVERSIFY
CUBAN AGRICULTURE

837.61351/3711 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, February 25, 1943—12: 50 p. m.

[Received February 27—12: 30 p. m.]

A-366. For Duggan and Bonsal.⁴¹ With reference to my airgram No. A-365 of February 25.⁴²

My conversations with Zaydín and López Castro⁴³ together with information received from other sources convince me that if a successful start is to be made on the diversification program this year, the plan will have to be made considerably more attractive than thus far, and there must be a real incentive to Cuban producers. As I see it, the two principal deterrents are price and lack of assured market after 1943.

Having in mind the serious preoccupation of our Government with respect to this problem and its importance on long-range consideration of Cuban economy, I urge therefore that the situation be carefully reviewed in order to determine how far we can go and in particular whether it can be made so worth-while for local production to be expanded that the Cuban Government will *ipso facto* be able to put on a successful campaign and to meet local criticism and inertia. The Cuban Government is, I believe, prepared to make genuine efforts in this direction.

With respect to peanuts I doubt whether, regardless of price, Cuba is likely to have any considerable 1943 surplus since last year's production must be increased from 40,000,000 pounds to 100,000,000 pounds unshelled before local crushing facilities are exceeded. At the \$3.65 present offer to growers (\$6.88 Habana shelled in bags) I have found little enthusiasm so far as additional plantings are concerned, although López Castro states confidently that at \$4.00 to growers (approximately \$7.50 in Habana) he believes the Government will be able to support a real campaign and effectively increase production. As indicated in airgram No. A-365, whatever machinery we can make available should also influence production to an important degree.

As regards corn and beans, no definite price offer has yet been forthcoming from Washington, although the Cuban delegation⁴⁴

⁴¹ Laurence Duggan, Adviser on Political Relations, and Philip W. Bonsal, Chief of the Division of the American Republics.

⁴² Not printed.

⁴³ Ramón Zaydín, Cuban Prime Minister, and Amadeo López Castro, President of Cuba's National Development Commission and special representative of the Cuban Government.

⁴⁴ The delegation that negotiated in Washington the United States purchase of Cuba's 1943 sugar crop. For details of this negotiation, see pp. 151 ff.

returned nearly two months ago and many Cubans are accordingly beginning to question our interest in these crops.

To summarize, I believe a further over-all survey of diversification possibilities should be made, and that if possible we should be prepared to make a definite commitment for a period in excess of one year and also to provide a minimum amount of equipment. If we are even to make a start in 1943, very prompt action is indicated, since the planting season is practically upon us.

BRADEN

837.50/168

*The Ambassador in Cuba (Braden) to the Under Secretary of State
(Welles)*

HABANA, March 17, 1943.

[Received March 19.]

DEAR SUMNER: I was especially interested to find your February 19 letter ⁴⁵ awaiting me on my return from Oriente Province because you have so exactly put your finger on the principal obstructions with which we continuously have to contend here—the inertia, the unsound thinking of our Cuban friends, coupled with a supine reliance on us and therefore a tendency to blame the U. S. A. when the going gets tough.

These mental hazards have been especially apparent in connection with the diversification program and will render its general acceptance more difficult. However, this program is of such importance for us as well as the Cubans, not merely from the aspect of the well-being of this island but of the entire Caribbean area, that I believe the time and effort we may spend on it will be well worth while. Moreover, we are making progress in some quarters, especially from the standpoint of its leading to the development of crops which will help Cuba to feed herself. If we can win on this front, then we may later succeed in the development of cash crops for export.

Insofar as diversification this year is concerned, it is only fair to observe, as I have in recent despatches, that we too have been at fault—understandably so in view of the extreme pressure on everyone in Washington. In particular, all of our conversations so far in respect to corn and beans have been handicapped because we could mention no price, while on peanuts we have offered a price which would give much incentive were we also able to supply the required mechanical equipment, especially tractors, but which on the basis of manual labor for clearing ground, et cetera, is not sufficiently attractive to produce any great results. Moreover instead of loaning seed peanuts to be repaid in kind, as originally suggested by us, the problem is now complicated by our making it a sale transaction.

⁴⁵ Not printed.

I may be indulging in over-simplification. Nevertheless I feel that the long pull approach to Cuban economy—fundamentally sugar—must sooner or later, and preferably sooner, include (1) genuine research, (2) diversification, (3) a revamping of the industry on this Island.

A start, halting though it be, has been made on (2) and it should be possible to get no. (1) under way. In this connection, I have received some encouragement for my thesis from Dr. Lamee of the BEW Combustion Mission,⁴⁶ who is confident that the wax on the surface of the cane itself, which has been a waste product and even something of a nuisance hitherto, may be separated for about 11 cents and sold industrially for about 40 cents. Also he has brought with him a sample of a plastic made from sugar juices. This latter development is still embryonic but may at least hold hope for the future.

With all best wishes,

Faithfully yours,

SPRUILLE BRADEN

[Here follows postscript, not printed.]

837.61/75a : Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, MARCH 22, 1943—7:00 p. m.

A-1001. You are authorized to present immediately to the Cuban Government the following note concerning corn and beans, the text of which has been approved by Board of Economic Warfare, Commodity Credit Corporation, and the Department.

“Reference is made to the active and thorough consideration which has been given by the appropriate agencies of the United States Government to the possibilities of cooperating with the Government of Cuba in an intensification of its program for agricultural diversification. This program was discussed by officials of both Governments and it was concluded that the benefits derived therefrom would tend to alleviate the economic situation of Cuba that may result from the reduced sugar grinding made necessary by the war.

The appropriate agencies of the United States Government have reached a separate agreement with your Government concerning a program designed to increase the production of peanuts in Cuba.

Commodity Credit Corporation will agree to purchase the entire exportable surplus from the 1943 planting of corn and beans in Cuba, made available before May 1, 1944, upon the following basis:

A. Commodity Credit Corporation will pay \$2.20 per hundred pounds for mixed corn, in carload lots, f. o. b. railroad station

⁴⁶ R. D. Lamee, process engineer of the United States Board of Economic Warfare's Combustion Mission to Cuba.

nearest to the Cuban producer. The corn shall be shelled and delivered in sound usable bags, the cost of which is included in the price. Corn will be accepted which is sound, merchantable, and not sour, musty, heating or weevilly, which does not have any commercially objectionable foreign odor, which is not otherwise of distinctly low grade, and does not have a moisture content in excess of $17\frac{1}{2}$ percent and does not contain cracked corn or foreign material in excess of 4 percent.

B. Commodity Credit Corporation will pay \$5.00 per hundred pounds for black beans and \$5.25 per hundred pounds for red beans, in carload lots, f. o. b. railroad station nearest to the Cuban producer. Bags will be made available by the Cuban producers at the rate of 20 cents per sound bag of 100 pound content, the cost of which will be paid by Commodity Credit Corporation. The beans are to be pure, sound, merchantable, and free from mold and weevil.

A representative of Commodity Credit Corporation will be sent to Cuba who will make the purchases of corn and beans on the basis herein stated. Adequate notice should be given this representative as to when and where such corn and beans are available for sale.

The Government of the United States will expect the Cuban Government to maintain an embargo upon the exportation of corn and beans from the 1943 planting and of peanuts from the 1943 and 1944 plantings except to Commodity Credit Corporation, or its nominees; and that all taxes, of whatever nature, including export taxes or other fees and charges, if any, imposed on such corn and beans while in the Republic of Cuba, or imposed because of exportation of such corn and beans from the Republic of Cuba, shall not be borne directly or indirectly by Commodity Credit Corporation, or its nominees.

It is not the purpose of the Government of the United States to profit by the sale or other disposition of peanuts, corn or beans purchased in Cuba pursuant to this program, and should profit be found to exist after deduction of the total costs, including duties, taxes or other charges properly applicable to all agencies of the Government of the United States, the Government of the United States and the Government of Cuba shall agree as to disposition of such profit to the general benefit of Cuban agriculture."

Señor López Castro has indicated his agreement with the text. Kindly telegraph Cuban Government's reply.

HULL

837.61/77

The Secretary of State to the Ambassador in Cuba (Braden)

No. 1586

WASHINGTON, May 3, 1943.

SIR: Reference is made to your despatch no. 2703 of April 6, 1943 enclosing copy of note no. 527 of March 31⁴⁷ from the Cuban Minister of State.⁴⁸

⁴⁷ Neither printed.

⁴⁸ Emeterio S. Santovenia.

The Cuban note states that the Minister of Agriculture,⁴⁹ while expressing satisfaction with the bases for the accord between the Cuban and the United States Governments for the purchase until May 1, 1944 of the exportable surplus of corn and legumes, requests in effect for Cuba the benefit under an escalator provision of any rise of prices for these commodities occurring in the United States market.

The Department, together with the Commodity Credit Corporation and the Board of Economic Warfare, has given this additional request of the Cuban Government most careful consideration. This Government has in this connection reviewed the course of the discussions in Washington with Señor Amadeo López Castro which led to the purchase agreement. The prices which were eventually reached and agreed to were determined solely by the amount of incentive estimated to be necessary to stimulate production of these commodities. At no time were the prices linked with United States markets; and the question of an escalator clause was not injected into the discussions. The Department, in fact, recalls that Señor López Castro departed fully satisfied with the terms for the purchase.

For your files, there are enclosed copies of communications of April 20 and April 24 from the Commodity Credit Corporation and the Board of Economic Warfare.⁵⁰

You are authorized to communicate this Government's views with regard to the corn and bean agreements to the Cuban Government.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

837.613/34 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, June 2, 1943—1 p. m.

[Received June 4.]

A-1078. Due to late arrival and increase in quantity of peanut seed shipped to Cuban Ministry of Agriculture in April, a large portion remains unplanted. Four million pounds of seed were delivered to Ministry, (only 3 million originally requested) of which about 1.25 million has been delivered to planters. Ministry expects to use possibly 0.5 million for fall planting, leaving more than 2 million pounds unused in 1943.

Storage until 1944 would involve considerable expense, require valuable storage space, necessitate frequent thorough fumigation, and involve some loss due to insect damage and reduced germination. Ministry, therefore, requests authorization to crush remainder for

⁴⁹ Joaquín Martínez Sáenz.

⁵⁰ Neither printed.

oil.⁵¹ If crushed in June or July, this would increase Cuban crushing capacity since crushers are now idle until August.

Mr. Sam Herman (BEW) expects to return to Washington by end of this week and will discuss matter further.

BRADEN

837.658/26

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3393

HABANA, June 8, 1943.

[Received June 10.]

SIR: I have the honor to refer to the Embassy's despatch No. 3051 of May 11, 1943,⁵² and to transmit three memoranda⁵³ prepared by Mr. G. C. Howard⁵⁴ and the Agricultural Attaché⁵⁵ concerning conversations with representatives of the American Dehydrating Company of Cuba about that company's project for large scale dehydration of vegetables under contract with the Commodity Credit Corporation. All the negotiations in connection with this project and contract have been carried on in Washington. These memoranda show the progress of that company's plans involving the construction of several large dehydration plants in Cuba.

While the Embassy is in sympathy with the idea of producing dehydrated vegetables in Cuba, it anticipates that the company may have considerable difficulty in obtaining the steady supply of raw vegetables which would be necessary for the successful operation of this large project. The kinds of vegetables that are to make up 60 percent of the production under the contract have heretofore not been grown commercially in Cuba and apparently cannot be grown satisfactorily during the summer season. (See Embassy's airgram A-887 of May 8; and despatch No. 3051 of May 11.⁵⁶) For this reason it would appear to be advisable that the project be started gradually in order that experience from the operation of the first unit may serve as a guide for the other two or three units and possibly avoid the expenditure of valuable strategic materials in the construction of plants if difficulties are experienced in obtaining an adequate supply of raw vegetables.

In the last paragraph of enclosure No. 2 Mr. Howard states that, although the question of supply of equipment and materials for the

⁵¹ The Secretary of State in airgram A-1556 of June 17, expressed "regrets that Cuba has now found it impossible to plant all the peanuts they requested for seed" and stated that the Department had "no objection" to crushing the unused balance though "it must be understood that a like amount of edible oil will be deducted from the U.S. allocation to Cuba." (837.613/37)

⁵² Not printed.

⁵³ None printed.

⁵⁴ George C. Howard, Second Secretary and Consul at the Embassy in Cuba.

⁵⁵ Paul G. Minneman.

⁵⁶ Neither printed.

construction of the plants is apparently being handled in Washington, it would be desirable if the Embassy could be informed as to what extra provision is being made for the steel, tinplate and fuel oil which will be needed for the construction and operation of these plants.

Respectfully yours,

For the Chargé d'Affaires ad interim:

PAUL G. MINNEMAN
Agricultural Attaché

S37.24/1601

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3626

HABANA, June 29, 1943.

[Received July 1.]

SIR: I have the honor to inform the Department of recent developments regarding farm machinery furnished by the United States to the Cuban Comisión de Fomento Nacional⁵⁷ to aid the program for increased farm production and agricultural diversification in Cuba.

The Embassy is informed that on or about June 1 the following machinery arrived in Cuba consigned to the Fomento:

40 track-type tractors
43 disk plows
50 one-row peanut planters
56 two-row peanut planters
5 rice binders
10 rice threshers
15 rice drills

This machinery was unloaded beginning June 11, after payment of demurrage caused by the Fomento's neglect of arrangements for receiving and handling. At the present date, June 29, the machinery is still in crates at Habana awaiting formulation of plans for distribution which apparently have not been satisfactorily established between the Fomento and the Ministry of Agriculture.

It is of interest to note that the shipment is largely planting machinery which arrived in Cuba too late to be used for summer crops. Only the rice binders and threshers have any prospect of being used on the present crop.

The peanut pickers which are considered by the Embassy to be most important and to be needed most urgently for the harvest already beginning, have not yet arrived in Cuba. The Embassy's telegram No. 436 of June 26, 1943,⁵⁸ called attention to this situation.

Respectfully yours,

For the Chargé d'Affaires ad interim:

PAUL G. MINNEMAN
Agricultural Attaché

⁵⁷ National Development Commission.

⁵⁸ Not printed.

S37.5018/45

The Ambassador in Cuba (Braden) to the Secretary of State

No. 3914

HABANA, July 24, 1943.

[Received July 29.]

SIR: I have the honor to refer to the Department's instruction no. 1934 of July 13 [14] and to the Embassy's despatch no. 3873 of July 20,⁵⁹ and to report that the contract for the purchase of Cuba's total export surplus of corn from the 1944 crop was signed today by the Minister of Agriculture. The revised draft of this contract was received from Washington on July 15. Four signed copies of the contract are transmitted herewith.⁶⁰ It is understood that three of these copies should be transmitted to the Office of Economic Warfare for the use of that agency and the Commodity Credit Corporation.

Although no reliable estimate is available concerning the quantity of export surplus corn which will be available, the Ministry of Agriculture has recently estimated the 1943 plantings at 464,000 acres with an estimated production of 489 million pounds. The Embassy believes that this estimate is too high, but it is evident that there has been considerable increase in production and that appreciable quantities will be available for export. By far the greatest production (about 41 percent of the total) is in Oriente Province in the extreme eastern end of the island.

The contract provides that the Commodity Credit Corporation shall take delivery of the corn at railroad stations throughout the island. The Minister expressed the opinion that there would probably not be more than twenty delivery points, but nevertheless it is obvious that the Corporation will have to have available at least two, and possibly more, inspectors to sample the corn and to determine whether it meets with our qualifications, et cetera. These inspectors, who should if possible have some knowledge of Spanish, should be in Cuba not later than August 5, as the Minister expects that the corn crop will begin to move during the first half of August.

It is the Minister's plan to assign to the Corporation the corn produced by a certain number of the largest growers. These will probably be mostly sugar companies, a number of which have gone into the production of corn this year on a large scale.

The Minister said that the Sugar Cane Growers' Association has agreed to establish a revolving fund of \$100,000 to finance growers who are financially unable to await payment from the Corporation.

He assured us that in accordance with the terms of the contract he would immediately notify the Cuban authorities to prohibit the exportation of corn, except in the case of corn shipped by or for the

⁵⁹ Neither printed.

⁶⁰ Not printed.

account of the Corporation. The Minister suggested that the Corporation would be given a general export license to cover its exports of corn from Cuba.

Similar contracts for the purchase of peanuts and beans are expected to be completed in the near future.

Respectfully yours,

For the Ambassador:
PAUL G. MINNEMAN
Agricultural Attaché

837.658/36

*Memorandum by the Special Representative of the Cuban Government (López Castro) to the Department of State*⁶¹

[WASHINGTON,] July 27, 1943.

The American Dehydrating Company of Cuba has a contract with Commodity Credit Corp. to dehydrate 40,000,000 lbs. of sweet potatoes and beets in Cuba. The Government of Cuba heartily welcomed this contract and viewed it as the first and foremost practical step in meeting the desires of the U. S. and Cuba to help Cuba diversify its crops and improve the economic position of the small farmers. We so announced it to the public.

We were particularly pleased when the American Dehydrating Company of Cuba decided to spread its purchases over three provinces, namely, Havana, Matanzas and Camaguey, by erecting three smaller plants rather than one large plant.

Officials and citizens of these provinces enthusiastically agreed to cooperate and farmers in the first two immediately undertook to raise the necessary vegetables.

Federal officials agreed to help with tax concessions, road building, loan of machinery, etc. Our Minister of Agriculture undertook with great satisfaction to encourage the farmers to grow the required vegetables, to supervise the planting, to lay out an insecticide program, and in every way to induce the farmers to participate in this diversification program.

Cuba granted certificates of necessity and letters of endorsement for the steel and machinery out of its own allotment.

In short we in Cuba are doing everything possible to help the American Dehydrating Company of Cuba carry out its contract with the Commodity Credit Corporation. We were therefore shocked to learn:

1. That an impression has been created by someone in the American Embassy in Havana that sufficient beets cannot be grown in Cuba and

⁶¹ This memorandum, unsigned, was left at the Department on July 28 by Amadeo López Castro, accompanied by Aurelio F. Concheso, Cuban Ambassador in the United States.

that farmers in Cuba will not successfully grow the quantity of beets required for this dehydration contract.

2. That there is an impression that the Cuban Government is only lukewarm to this great project.

3. That therefore export licenses and priority certificates for necessary steel and equipment are being refused to the American Steel Corporation of Cuba which is constructing these plants.

We therefore state emphatically that :

A. The Government of Cuba is most anxious that this project be prosecuted with every energy and dispatch, and that I am authorized to state that our Government will help in every way; that we consider the program of the American Dehydrating Company of Cuba one of the most if not the most important project of our diversification and good neighbor program.

B. There is no question that beets can and will grow in Cuba; that the farmers are anxious to grow beets for this dehydration program and that farmers will undertake to grow sufficient beets to enable the American Dehydrating Company to carry out its contracts in full. We know of our own knowledge that farmers are now in the process of growing and have ground broken to grow the vegetables for this purpose.

C. It will be breaking faith with these thousands of farmers and laborers to withhold the export licenses for the steel and necessary equipment for the three plants required to carry out this dehydration program.

Respectfully yours,

837.658/34½

The Cuban Ambassador (Concheso) to the Secretary of State

[Translation]

The Ambassador of Cuba presents his compliments to His Excellency the Secretary of State and has the honor to inform him that he has received instructions from his Government to request His Excellency's good offices with the different war economic agencies of his Government to obtain the approval of a project for the establishment in Cuba of three plants for dehydrating vegetables to be installed and operated by the American Dehydrating Company of Cuba, which has been submitted and is awaiting approval by the said war economic agencies.

As His Excellency knows, the establishment of the said three dehydrating plants will have the immediate purpose of supplying 40,000,000 pounds of dehydrated vegetables to the United States, through a contract already signed between the Commodity Credit Corporation and the American Dehydrating Company of Cuba. This contract, in addition to signifying an effective collaboration of the

people of Cuba in the supplying of food to the Army and people of the United States, will result in the cultivation of about 40,000 acres of land on approximately 3,000 small estates and in the employment of a substantial number of workers. In the industrial process the plants will employ about 3,000 workers and in the farming operations, in the seasons of cultivation and harvesting of the crops, approximately 20,000 agricultural workers will obtain employment.

The interest of my Government in the approval of this project is accentuated by the fact that, in order to carry out fully its agreement with the Commodity Credit Corporation, the American Dehydrating Company of Cuba has already signed contracts with Cuban farmers and the latter have begun their work in preparation for seeding and, in case the project is disapproved, wholly or in part, by the agencies of this Government, considerable difficulties and losses will be caused for the Cuban farmers.

The establishment of the dehydrating plants will represent a step of real progress and of great magnitude in the program of diversified agriculture which my Government is carrying on with the valued co-operation and aid of Your Excellency's Government, and very especially of the Department of State, for this project will not limit its scope to supplying food for the United States during the present emergency period, but, after the end of this period, the dehydrating plants will make possible the exportation of vegetable products which in their natural state can not be sold abroad because of their easy and rapid decomposition. At the same time and for the same reason, the dehydration of vegetables will make easier and more economical the domestic supply for the people of Cuba, thus improving their nutritional standards, because, due to the warmth and humidity of our climate, fresh vegetables and fruits have prohibitive distribution costs which make their consumption by the poor and middle classes of our country impossible. The Ambassador of Cuba will be profoundly grateful for the attention which Your Excellency may show this request.

WASHINGTON, August 6, 1943.

837.658/36

The Department of State to the Cuban Embassy

MEMORANDUM

In reply to the memorandum of July 27 of Dr. Amadeo López Castro, concerning the dehydration project of the American Dehydrating Company of Cuba, the Department of State is pleased to have an opportunity to comment on the project and to express appreciation of the de-

termination of the Government of Cuba supporting the agricultural diversification program. It is a source of real gratification to note the substantial progress already being made; for example in the production of corn, the present crop of which is one of the largest in Cuban history.

During recent years and especially during last winter's general economic discussions, the Department of State and other interested agencies of this Government have maintained a keen interest in the continuation and intensification of Cuba's diversification program. To that end the Department has assisted in making available certain agricultural machinery, and as Dr. López Castro is aware, contracts for production of the various agricultural items such as corn, beans, and surplus dairy products are under active consideration at present.

The project of the American Dehydrating Company of Cuba has received most careful attention and study by the American Embassy at Habana and the Department since its inception during March 1943. Every effort has been made to reach a fair and helpful determination that can be justified on the basis of production potentialities of beets and sweet potatoes, and consistent with the availability of iron and steel materials and of fuel oil and tinplate. The Department has concluded that it may reasonably recommend to the War Production Board the construction of one dehydration plant and it maintains the position that, in view of the lack of experience in the commercial production in Cuba of most of the vegetables under contract, that consideration of further construction be deferred pending the visit to Cuba of technical dehydration experts, which will take place within the next few weeks, according to advices received by the Department from the Office of Economic Warfare.⁶² Also of assistance in reaching a decision with respect to the advisability of additional construction will be the results achieved in the operations of the first factory, which is understood to be nearing completion.

The Department will, of course, continue its active interest in this matter.

WASHINGTON, August 12, 1943.

837.658/43

The Ambassador in Cuba (Braden) to the Secretary of State

No. 4276

HABANA, August 24, 1943.

[Received August 28.]

SIR: I have the honor to refer to previous correspondence regarding the American Dehydrating Company project in Cuba, and es-

⁶² The Board of Economic Warfare became the Office of Economic Warfare on July 15, 1943.

pecially to the memorandum ⁶³ attached to the Department's instruction No. 2091 of August 12, 1943 ⁶⁴ (no file number), setting forth the Cuban Government's interest in this project, and to a memorandum dated August 5, 1943, ⁶⁴ on a telephone conversation between Mr. M. P. Anderson of the War Production Board and an officer of the Department, ⁶⁵ from which the impression is obtained that the Commodity Credit Corporation is lukewarm towards the project as possible users of dehydrated vegetables are scarce and as the present production capacity of dehydrated vegetables is sufficient for all possible needs. According to this memorandum, the Commodity Credit Corporation is reportedly willing to release the American Dehydrating Company from its obligations under the contract.

Mr. Frank Cohen of the American Dehydrating Company informed the Embassy on August 20, 1943, that a project license had been issued to cover all the materials and equipment required for the first of the three dehydrating plants his company desires to erect and that he is extremely anxious to erect the second plant in order to be able to comply with the contract between his company and the Commodity Credit Corporation. Mr. Cohen requested the Embassy to make a definite recommendation in this regard.

Inasmuch as the Embassy's views on this project, as expressed in its air mail despatch No. 3915 of July 24, 1943, ⁶⁶ remain unchanged, Mr. Cohen was informed that any recommendations should properly come from the Commodity Credit Corporation, with which the project originated and to which the American Dehydrating Company is called upon to deliver under its contract.

The question now arises, however, as to what action should be pursued by the Embassy in connection with import recommendations covering iron and steel and other strategic materials for the plants in question. According to the original estimates submitted by the company to the Embassy, approximately 1,300,000 pounds of steel were required for each plant. To date certificates of necessity for about 462,000 pounds of steel and import recommendations for roughly 241,000 pounds of steel have been approved against the third and fourth quarter estimates of supply, respectively, leaving some 600,000 pounds more to be granted for the completion of the first plant. In view of the Cuban Government's interest in the project, it may be assumed that the Import and Export Agency will issue against future estimates of supply additional import recommendations to cover the steel and other materials required to complete the first plant, as well

⁶³ Memorandum of July 27 by Amadeo López Castro, p. 231.

⁶⁴ Not printed.

⁶⁵ George F. Scherer.

⁶⁶ Not printed; in this despatch the Ambassador expressed the desire that the project proceed with caution until more adequate information became available (837.658/34).

as the second and, possibly, a third plant. The Embassy is therefore urgently in need of a definite statement as to the interested agencies' views in the matter and whether they propose to approve export license applications for the materials, supplies and equipment required for the erection of a second or even a third plant.

Pending receipt of the Department's instructions, the Embassy will approve import recommendations up to the amounts required for the construction of the first plant (now nearing completion at Colón), and any additional import recommendations for this project will be submitted to the Department for such action as it may be decided to take with regard thereto.

Respectfully yours,

For the Ambassador:
GEORGE C. HOWARD
First Secretary of Embassy

837.658/43 : Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, September 16, 1943—5:30 p. m.

A-2231. Reference your despatch 4276, August 24, regarding American Dehydrating Company and requesting a definite statement as to the interested agency's views in the matter, and whether they propose to approve export application for the materials, supplies and equipment required for the erection of a second or even a third plant.

Mr. Cohen has been advised that Commodity Credit Corporation will administer his contract in such a way that he will not be embarrassed by inability to deliver due to no fault of his own.

There are no present plans to authorize export application for materials, etc., for a second or third plant. Should the position in regard to this matter change, you will be advised.

Import recommendations should be approved only for requirements for first plant of subject project pending consideration and action in Washington on additional plants.

The Department understands that the War Production Board approved necessary equipment and the Office of Economic Warfare granted export licenses September 14 for needed equipment for first plant. Furthermore, it is the Department's understanding that initial unit is up and practically completed.

HULL

837.613/45

The Ambassador in Cuba (Braden) to the Secretary of State

No. 4724

HABANA, October 7, 1943.

[Received October 12.]

SIR: I have the honor to transmit three signed copies of a contract ⁶⁷ executed today on behalf of the Commodity Credit Corporation and the Cuban Ministry of Agriculture for the purchase of export surplus peanuts.

Although the contract is executed by the Minister of Agriculture, the Ministry does not have facilities for actually purchasing the peanuts and paying the growers for them, transporting them to Habana, and shelling them for delivery f. a. s. vessel for export. Therefore, the contract provides that the Minister may appoint agents to perform these operations for the Ministry. Two leading vegetable oil crushers, Sabates, S. A., and Hershey Corporation, also have signed agreements with the Ministry to act as agents to perform these functions.

Although Cuba's peanut production this year is approximately double that of last year, production is still slightly below the capacity of Cuban oil crushers and, therefore, no export surplus from the 1943 crop is anticipated. The contract contains an option under which the purchase program may be continued to cover the 1944 crop.

Respectfully yours,

For the Ambassador:

PAUL G. MINNEMAN

Agricultural Attaché

837.61351/4399

The Ambassador in Cuba (Braden) to the Secretary of State

No. 5038

HABANA, November 5, 1943.

[Received November 9.]

SIR: Supplementing the Embassy's air mail despatch No. 5017 of November 4, 1943,⁶⁷ (File No. 861.35) enclosing copies of three notes which the Embassy transmitted to the Foreign Office ⁶⁸ in connection with the recently concluded negotiations for the purchase by the Commodity Credit Corporation of a large portion of the 1944 Cuban sugar crop, I have the honor to enclose a copy and translation of note No. 3177 of October 26, 1943,⁶⁷ received from the Foreign Office which contains the Cuban Government's reply to the Embassy's note No. 1150 of October 19, 1943, regarding the continuance of Cuba's agricultural diversification program. It will be noted that the Cuban Government, in its reply, assures the Embassy that it is dedicating its best

⁶⁷ Not printed.

⁶⁸ Note No. 1150 not printed; for notes Nos. 1151 and 1152, October 19, see pp. 177 and 179, respectively.

efforts to the development of its diversification program but that additional agricultural machinery and equipment and increased quantities of gas oil are needed for the program's successful development.

There is also enclosed a copy of the Embassy's note No. 1176 of November 1, 1943,⁷¹ in reply, informing the Cuban Government that inasmuch as light petroleum products are in critically short supply, no increase in Cuba's gas oil quota is possible at this time and bringing to its attention a letter which the Embassy recently addressed to the ORPA in which certain ways and means of eking out Cuba's supply of light petroleum products were suggested. A copy of this letter to the ORPA is likewise enclosed.⁷²

With regard to the request for additional agricultural equipment and machinery, the Department's attention is invited to the Embassy's despatch No. 5034 of November 5, 1943,⁷³ (File No. 861) reporting on the agricultural equipment and machinery which our Government furnished Cuba for agricultural diversification purposes last June and on the Cuban Government's failure to make effective use thereof.

Respectfully yours,

For the Ambassador:

ALBERT F. NUFER

Counselor of Embassy for

Economic Affairs

837.24/2166

The Ambassador in Cuba (Braden) to the Secretary of State

No. 5111

HABANA, November 11, 1943.

[Received November 18.]

SIR: I have the honor to refer to the Embassy's despatch No. 5034 of November 5, 1943,⁷¹ which stated my intention to discuss with Cuban officials the ineffective use in 1943 of farm machinery furnished to the Ministry of Agriculture to assist the program for agricultural diversification.

I had the opportunity to take up this matter briefly during my meeting of November 8 with the Prime Minister, at which Ingeniero Amadeo López Castro was present. I pointed out that the failure of the Cuban Government to provide for effective utilization of the machinery had unfortunate effects for the United States agencies which were instrumental in obtaining the equipment, and also on the attitude of the American Congress, the implication being that these develop-

⁷¹ Not printed.

⁷² Letter to the ORPA (Oficina de Regulación de Precios y Abastecimientos) in Cuba, dated October 30, not printed.

⁷³ Not printed; it reiterated the Embassy's recommendation that it be allowed to clear on all future sales of tractors and that such sales be direct to commercial interests rather than through the Cuban Government (837.24/2134).

ments have damaged the prospects for obtaining additional equipment for Cuba.

Ingeniero López Castro replied that the equipment arrived too late in 1943 for use in spring planting. This of course is true, but does not justify the failure to distribute the tractors and plows for use in planting fall crops, including beans and peanuts which are highly important with respect to agricultural diversification; nor does it explain the failure to make more effective use of peanut and rice harvesting machinery. Assembly of rice harvesting equipment was not even begun until the fall harvest season was under way, only a portion of this machinery was actually distributed, and the balance now is of no use until the fall of 1944. As there was no plan whatsoever for distribution of equipment upon its arrival in June 1943, it does not appear likely that the machinery would have been distributed in time for spring crops of 1943 even though it had arrived prior to their planting dates.

The shortage of gas oil also was presented by Ingeniero López Castro as a hindrance to effective use of the farm machinery. This can not be considered a valid excuse for failure to distribute the equipment, as demand for tractors and rice harvesting equipment would at the proper time in 1943 have absorbed the machines regardless of the prospective fuel problem with respect to their operation. The matter of gas oil was discussed in detail at the same meeting and Ingeniero López Castro, when informed that the Cuban quota could not be increased, expressed his intention of taking up the matter in Washington. This intention was reported to the Department in the Embassy's telegram No. 722 of November 8, 1943.⁷⁴

As sale and distribution of the farm machinery now is proceeding as rapidly as is reasonable considering that there is no immediate occasion for its use at this season, no further action is contemplated by the Embassy except with respect to Cuban allocations for 1944, as described in the closing paragraph of the Embassy despatch mentioned above.

Respectfully yours,

For the Ambassador:
ALBERT F. NUFER
*Counselor of Embassy for
Economic Affairs*

⁷⁴ Not printed.

FINANCIAL ASSISTANCE BY THE UNITED STATES TO CUBA⁷⁶

S37.51 Cooperation Program/192 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, January 7, 1943—noon.

[Received 2:38 p. m.]

12. It would be helpful to receive information on the status of Cuban Public Works projects including the following.

1. Central Highway. Has the requisite machinery been earmarked and when will it be delivered? How about steel? Are we correct in assuming that necessary asphalt has been promised on a war essential basis? (The Presidency announced on January 4 that repairs should be undertaken at once; Fomento Commission⁷⁷ has disclaimed knowledge of this statement.)

2. What is the final decision on the Santiago and Guantánamo aqueduct proposals?

3. With respect to supplementary roads, how was this matter left? A revised and less extensive list of air base construction equipment was recently made available to the Fomento Commission which has written me that it desires to acquire practically all of it. My reply should indicate not only items to be transferred (which can be ascertained from base authorities here) but whether this is to be done under Lend-Lease,⁷⁸ the \$25,000,000 line of credit,⁷⁹ or otherwise.

4. What was the result of investigation concerning availability of equipment for refrigerated storage warehouses? (These are highly important with respect to the agricultural diversification program.⁸⁰)

5. Irrigation projects. It is assumed that the engineers mentioned in the Department's telegram No. 23 of January 6⁸¹ will investigate feasibility of Cuban plans.

BRADEN

⁷⁶ Continued from *Foreign Relations*, 1942, vol. VI, pp. 290-315.

⁷⁷ Ministry of Public Works' National Development Commission (Comisión de Fomento Nacional).

⁷⁸ For correspondence concerning Lend-Lease agreement with Cuba, see *Foreign Relations*, 1941, vol. VII, pp. 116 ff.

⁷⁹ An agreement signed April 8, 1942, between the Export-Import Bank of Washington and the Comisión de Fomento Nacional provided for a line of credit of \$25,000,000, repayable in 30 installments semiannually with interest at 4 percent. The loan was to be used for public works and agricultural projects.

⁸⁰ For details of the diversification program in Cuba, see pp. 223 ff.

⁸¹ Not printed.

837.51 Cooperation Program/192 : Telegram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, January 9, 1943—7 p. m.

44. Reference your 12, January 7, noon.

1. Central Highway. As explained to Ambassador Concheso on January 6, efforts are being made to locate suitable new and used asphalt spreading machinery, which Cuban representatives must be prepared to inspect immediately (Concheso is to have Snare's⁸² engineer, Seeley, available).

Steel requirements, in accordance with previous understandings, will be supplied from regular Cuban allocation.

The Department has informally indicated to the Cuban Commission that adequate asphalt supplies are likely to be made available.

2. Although Export-Import Bank formally approved on January 6 projects for Central Highway, Santiago and Guantánamo aqueducts, the approval did not, of course, cover priorities. You are referred to the Under Secretary's strictly confidential telegram to you of January 9.⁸³

3. No definite project regarding supplementary roads was presented or discussed although it is presumed that construction would follow repair of Central highway, using airfield construction equipment. The equipment would not be made available under Lend-Lease, but the precise manner of transfer is still uncertain.

4. Señor López Castro⁸⁴ has been informed that if his Government were to present a formal application, there would be a strong possibility of favorable consideration in Washington.

5. Your assumption is correct. Rio Buey is to be investigated first.

HULL

837.51 Cooperation Program/195 : Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, January 23, 1943—3:50 p. m.

A-699. Your A-95 and A-96, January 14.⁸⁵ The Department is definitely opposed to the utilization of Lend-Lease funds for the purchase of any of the machinery and equipment from San Antonio de los Baños.⁸⁶ The Export-Import Bank is prepared to finance under

⁸² Frederick Snare Corporation, an engineering company.

⁸³ Telegram No. 41 not printed; in this telegram the Ambassador was advised by Under Secretary of State Welles not to negotiate on the aqueduct proposals until February.

⁸⁴ Amadeo López Castro, President of Cuba's Comisión de Fomento Nacional.

⁸⁵ Neither printed.

⁸⁶ An airport development project recently completed.

the \$25,000,000 loan the purchase of equipment needed for the completion of projects which have been submitted to the Bank or which will be submitted by the Cuban Government. The Department suggests that you consult Fitch⁸⁷ of the Export-Import Bank, who is now in Cuba, regarding the procedure to be followed by the Cuban Government in utilizing the \$25,000,000 loan for this purpose.

The War Department authorizes Major Wommack to serve as consultant in connection with the evaluation of equipment belonging to the Cayuga Construction Company.⁸⁸

HULL

837.24/1108 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

[Extract]

HABANA, February 24, 1943—9 a. m.

[Received February 27—12:30 p. m.]

A-356. . . .

With reference to my telephone conversation February 22nd with Bonsal,⁸⁹ I hope Department will be able to impress Export-Import Bank with importance of leaving Comisión de Fomento Nacional free to lend some of its equipment to Cuban Army and Navy for Cuban defense projects, as contemplated restriction on use of important construction equipment in time of war hardly appears warranted or feasible of execution. López Castro has pointed out that *we* might be the ones wishing to borrow some of this equipment for use on our military and naval projects in Cuba and that Cuban Government would naturally wish to accede to such a request but could not very well do so if Comisión were prevented from lending equipment for Cuban defense projects.

BRADEN

837.24/1108 : Telegram

The Acting Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, March 3, 1943—10 p. m.

279. Reference Embassy's A-356, February 24, 9 a. m. The Department has discussed with Export-Import Bank the matter of making machinery and equipment available to the Cuban War and Navy

⁸⁷ John D. Fitch, principal engineer of a 3-man engineering team sent to Cuba in January 1943 by the Export-Import Bank.

⁸⁸ The engineering company that constructed the military airport at San Antonio de los Baños.

⁸⁹ Philip W. Bonsal, Chief of the Division of the American Republics.

Departments. The Bank believes and the Department concurs that it would be unwise for the Bank to approve the use of funds under public works loan for the purchase of equipment to be used elsewhere than on projects it has approved. The Bank believes such action would violate Cuban law authorizing loan and agreement signed thereunder. The Department also understands from Montoulieu⁹⁰ that the Comisión de Fomento Nacional has recently adopted resolution that equipment would be used only on projects approved by Bank.

In view of the foregoing and of the prospective arrival of Colonel Covell,⁹¹ you may wish to suggest to the proper Cuban officials that, if War and Navy Departments are interested in purchasing San Antonio de los Baños equipment with Cuban Government funds, the representatives should be prepared to confer with Colonel Covell and representatives of the Comisión when he arrives at Habana.⁹²

WELLES

S37.516/413 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, March 24, 1943—10 a. m.

[Received 12:32 p. m.]

177. To Harry White,⁹³ Treasury, from Southard and Bernstein.⁹⁴

1. In satisfactory conference Finance Minister⁹⁵ stated our arrival most timely as Government considers final drafting of bank law should be undertaken at once.

2. Major issues are:

(a) Whether Board of Directors should have more representation of member banks and possibly trade associations. Government still agrees with Mission and will probably maintain stand.⁹⁶

(b) Whether superior banking council should have less Government representation and limited powers over Board of Directors. Government probably not insistent on present draft law if its stand on point (a) can be maintained.

(c) Whether inspection of private banking should be in Central Bank. Government still thinking of independent inspector general

⁹⁰ Eduardo Montoulieu, Cuban Minister of State.

⁹¹ Gordon Covell, responsible for United States Army engineering construction in Cuba.

⁹² In airgrams A-1096 June 3, from the Ambassador, and A-1142, June 8, from the Chargé in Cuba, it was indicated that the construction equipment would be purchased from the United States War Department by the Cuban Government (S37.24/1443, 1471).

⁹³ Harry Dexter White, Assistant to the Secretary of the Treasury.

⁹⁴ Frank Southard, Navy Department, and E. M. Bernstein, Treasury Department, had arrived recently in Habana for consultation with the Cuban Government on the establishment of a Cuban central bank.

⁹⁵ José Miguel Irisarri.

⁹⁶ For views of the American advisers, see telegram No. 190, *infra*.

of banks but may be open to compromise in form of semi-autonomous department of inspection within Central Bank.

(d) Whether stabilization fund should be autonomous or Department of Central Bank operating for account of Government. Technical problem and unlikely to cause difficulty.

3. Government unwilling to accept Mission proposal to omit title 5 on private banks.⁹⁷ Argues article correct taking in lack of basic law covering creation, operations, and inspection of banks. However, willing to reduce this title to absolute minimum. We reiterated Mission's reluctance to comment on this title, but shall study matter and await your views.⁹⁸

4. Government wants views and support of Mission on all possible points but does not expect Mission to yield well-maintained positions. In latter cases Government hopes for Mission's technical advice. We consider this procedure satisfactory. Still expect to return about April 5th. [Southard and Bernstein.]

BRADEN

102.1/8028 : Telegram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, March 30, 1943—5 p. m.

[Received 6 : 57 p. m.]

190. To White, Treasury, from Bernstein. "Nearly completed going over changes in proposed Central Bank law with Cuban Treasury representatives. Experienced no great difficulty on important points except taxes and other provisions to hasten termination dollar deposits, dollar assets and dollar loans in which matters some flexibility will be introduced. Agreed that in any compromise on structure board of directors every effort will be made to retain control by Government. Satisfactory arrangement expected on Council and Bank inspection along lines Mission's recommendations. Will complete Government discussion today. Government expects conferences with Senate Committee beginning tomorrow with us present as technicians. Southard leaving Friday. Bernstein leaving Sunday if possible but not later than Tuesday. Gardner⁹⁹ remaining another week."

BRADEN

⁹⁷ Title 5 of proposed Central Bank law.

⁹⁸ The Secretary of State, in telegram No. 381 of March 30, 6 p. m., transmitted to Bernstein, Southard, and Gardner the recommendation by Harry Dexter White that the Mission should avoid, if possible, taking any position with respect to the merits of title 5.

⁹⁹ Walter Gardner of the Federal Reserve Bank had joined Southard and Bernstein in Cuba on March 27.

837.613/11 : Airgram

The Ambassador in Cuba (Braden) to the Secretary of State

HABANA, April 1, 1943—10:00 a. m.

[Received April 3—4 p. m.]

A-613. With reference to the diversification¹ and public works programs, I received a visit from the Prime Minister,² the Minister of Agriculture³ and López Castro, during which López Castro gave me the following summary of pending matters as of his departure last week from Washington:

[Here follows summary of matters concerning diversification with respect to peanuts, beans, and corn, and to agricultural machinery.]

2. *Public Works.*

a) *Central Highway*: Necessary equipment assured and no further action by the Cuban Government is required at this juncture.

b) *Materials and Equipment for Six Storage Warehouses*: López Castro states that there are now lacking only the Cuban "Certificates of Necessity", which the Comisión de Fomento Nacional will obtain from the Cuban Export and Import Agency in accordance with established procedure.

I would appreciate receiving the Department's instructions as to whether materials for these projects obtainable under "Certificate of Necessity" procedure will form part of Cuba's present allocations; whether separate allocations will be granted; or whether they will be furnished under some other procedure as, for example, from "distress stocks".

c) *Santiago de Cuba and Guantánamo Aqueducts*: López Castro understands that the necessary priorities will be assured on or after April 1 (I should appreciate information on this).

d) *Supplementary Roads*: López Castro is much disappointed at his failure to make progress with our military authorities in connection with obtaining some of the Army equipment which was used in the construction of Batista Airport. The Embassy is in touch with Colonel Covell's office and is trying to work out a satisfactory arrangement, but the question of payment for this equipment is one which seems not yet to have been resolved.

López Castro also spoke about the possibility of obtaining certain used tires from San Julián or La Fé (It was not quite clear which); the Embassy is seeking further information on this point.

Finally, López Castro asked whether it would be possible to purchase any of the used equipment imported for the Nicaro Nickel Com-

¹ For correspondence on the diversification program, see pp. 223 ff.

² Ramón Zaydín.

³ Joaquín Martínez Sáenz.

pany. The Embassy has written Mr. Norcross at Nicaro, asking if there is any such equipment available.

BRADEN

837.51 Cooperation Program/206a

*The Under Secretary of State (Welles) to the Chairman of the War
Production Board (Nelson)*

WASHINGTON, April 2, 1943.

MY DEAR MR. NELSON: I refer to my letter of December 12 and your letter of December 21, 1942,⁴ both addressed to the President, regarding materials for certain projects requested by President Batista of Cuba at the time of his visit to Washington. At that time you indicated that we could take up two of these projects, the water supply and sewage disposal system at Santiago, and the water supply system at Guantánamo, in February or March.

I have held off discussing these projects further with you pending completion of a number of other economic arrangements with Cuba. President Batista has now sent me a message that he is most anxious to begin at once to carry out his personal commitments to the cities of his home province that the long overdue sanitary improvements would be resumed during his tenure of office. The health conditions in Guantánamo, adjacent to our Naval Station, are deplorable and constitute a menace not only to the health of the Cuban residents, but of our naval personnel. The water supply of Santiago, the second city of Cuba, and a very important port for sugar and for transshipment to other islands, is also extremely bad. Moreover, the inability of the United States to provide shipping for the transportation of Cuban export products, notably sugar, is occasioning a severe measure of economic depression, and this is particularly acute in the east end of the island, where these cities are located. The carrying out of these works projects would thus afford a measure of relief to the local unemployed.

As you know, the total material requirements of these projects are very small, and President Batista has indicated his willingness to deduct the iron and steel from the usual small allocations which the War Production Board has been making available for Cuba. In addition, he is prepared to have engineers of this Government go carefully through the projects eliminating all but the most essential critical materials, so that the net strain will be very small indeed. Moreover, although the employment aspect of the projects is important to him, the political aspect is so important that he is prepared if nec-

⁴ Neither found in Department files.

essary to see them proceed very slowly, thus spreading any use of critical materials very thinly over a considerable period of time.

Only with great difficulty has the President of Cuba been able to explain to his people the inevitability of war sacrifices and the difficulties with which the United States is faced in cooperating with Cuba to mitigate the dislocations which have arisen from the shortage of critical materials and of shipping. Furthermore, in military as well as economic fields we have unfortunately been able to carry out only in part the programs to which we had obligated ourselves previously. The President and the people of Cuba have collaborated wholeheartedly with us right down the line of military and economic matters, but the President fears difficulties in continuing to carry out his broad policy of cooperation if the political and social problems arising in Cuba, especially in the eastern end of the island, are not at least partially alleviated. He believes that the carrying out of his personal pledges to complete the two projects which I have mentioned will do most, with but a small cost in materials, to take care of the situation.

After the most careful survey of the Cuban situation, I am forced to concur with President Batista's analysis of his situation and wish to emphasize to you the political importance of these small projects as contrasted with the small expenditure of materials contemplated. I request, therefore, that you approve the assignment of materials to permit these projects to go forward.

Sincerely yours,

SUMNER WELLES

837.613/11 : Airgram

The Secretary of State to the Ambassador in Cuba (Braden)

WASHINGTON, April 9, 1943—4:35 p. m.

A-1112. Reference Embassy's A-613, April 1, 10 a. m. The following information has been obtained relative to pending diversification and public works matters:

[Here follows information concerning diversification with respect to peanuts, beans, and corn, and to agricultural machinery.]

2. *Public Works*—b) *Refrigerated Warehouses*: Project materials will form part of Cuba's allocations as in the case of Central Highway.

c) *Santiago and Guantánamo Aqueducts*: No information yet available in this regard.

d) *Supplementary Roads*: Conversations with López Castro in Washington brought to his attention the fact that funds for purchasing equipment for Mariel and Camp Columbia airport projects

cannot be made available under Lend-Lease or under \$25,000,000 Export-Import Bank credit, and that Cuban Army and Navy should undertake arrangements for providing funds.

HULL

837.51/2943

Memorandum by the Agricultural Attaché in Cuba (Minneman) to the Ambassador in Cuba (Braden) ⁵

HABANA, April 23, 1943.

MR. AMBASSADOR: The attached memorandum regarding the planned projects under the \$25,000,000 loan is particularly interesting when compared with the original Cuban report and the recommendations made by the United States commission just two years ago. The following shows the amounts originally recommended for the various projects as compared with Fomento's present plan:

<i>Project</i>	<i>Original Request (\$1,000)</i>	<i>Present Proposal (\$1,000)</i>
Water, sewers, paving:		
Santiago	900	3,000
Guantánamo	200*	3,000
Roads:		
Central Highway	1,500	6,000
Secondary roads and repair	4,000	6,000
Country roads	5,000	2,000
Irrigation	2,350	2,000
Farm machinery	1,230	500
Refrigerated warehouses—6	520	1,500
Warehouses (regular)	100	0
Reforestation	730	0
Rehabilitation	3,000	0
Agricultural research	600	0

* Water only. [Footnote in the original.]

The original recommendation was to the effect that the major portion of the loan should be used for agricultural projects and roads. The present plan greatly reduces the agricultural share and omits entirely several items such as research, reforestation and rehabilitation.

Roads: Note that the estimate for the Central Highway repair has been increased from \$1,500,000 to \$6,000,000 due, no doubt, in part to the use of structural steel and in part to the fact that the Highway has deteriorated considerably since the first report was made. The original detailed Cuban estimate of \$1,500,000 was submitted about October 1940; of this \$660,000 was allocated for resurfacing.

⁵ Copy transmitted to the Department by the Ambassador in Cuba in his despatch No. 2894 of April 26; received April 30.

Secondary roads, originally \$4,000,000, now increased to \$6,000,000. Country roads originally \$5,000,000, now reduced to \$2,000,000. This last item our commission felt to be very important in order that Cuba might have some all season access to agricultural areas over solid roads, even though not hard-surfaced. This construction of country roads would require very little imported material but would provide much employment.

Irrigation: There has been very little change; the original appropriation was \$2,350,000 and is now \$2,000,000. However, progress is still very slow. Mr. Vetter,⁶ the United States engineer who has been employed by the Export-Import Bank and by Fomento to supervise these projects, has not as yet obtained adequate assistance for carrying out his work.

Refrigerators: The six were originally estimated to cost \$500,000, but have now been increased to \$1,500,000. This is a very high cost and a large increase, considering that present plans are for only 14 percent more space than the original project. These refrigerated warehouses were to be used primarily for storing black beans (to prevent insect infestation) and for potatoes and onions. We have always maintained that refrigeration for dry beans is not necessary, economical or adequate. However, some refrigerated space in outlying areas is needed for potatoes and onions and some could possibly also be used for dairy products.

Farm Equipment: Originally recommended \$1,200,000 but now \$500,000. Under war conditions, it is obviously correct to reduce sharply. Almost any specified quantity of machinery, if used in the United States, would contribute more to the war effort than if used in poorly organized Cuban production. Furthermore, it would be cheaper for the United States, and more effective, if we paid higher prices immediately for the products we want from Cuba than it would be to supply machinery to Cuba.

The following projects originally recommended are now not included at all:

Research: Originally \$600,000 was recommended for agricultural research, about $\frac{5}{6}$ of which was for the 5 year operation of general, democratic, research foundation to which all major industries would be made to contribute. About $\frac{1}{6}$ was recommended for banana research. Although all of this is not immediately requisite to winning the war, I believe it is probably more important than some of the other projects. Something must be done in the field of agricultural research.

Reforestation: Originally \$730,000 was strongly recommended to provide employment and to get started on vital and permanent refor-

⁶ Carl P. Vetter.

estation. Plans have been prepared by the Cuban forestry people, but Fomento has left them cold. Meanwhile, charcoal and lumber prices rise and Cuba has to import more lumber than it exports.

Warehouses: Not refrigerated. Originally \$100,000, intended for storing corn and such products in rural areas.

Rural Rehabilitation: Originally \$3,000,000. Recommended with the proviso that the work would be started slowly under trained technicians from the United States. Obviously this may well be delayed during the war, although a beginning should be made on a small scale.

P[AUL] G. M[INNEMAN]

811.34537/570

The Under Secretary of State (Welles) to the Ambassador in Cuba (Braden)

WASHINGTON, April 26, 1943.

DEAR SPRUILLE: I have been in communication with Donald Nelson regarding the water supply and sewage disposal projects for Santiago and Guantánamo, and I have just received a letter⁷ from him indicating that the War Production Board, having studied the projects and discussed them with Ing. Montoulieu, is prepared to grant ratings which will permit the work to be undertaken. Certain of the most critical items will have to be deferred, but Montoulieu is satisfied that these can be worked into a satisfactory schedule of operations. I attach for your information a copy of Mr. Nelson's letter.

I am happy that we are thus going to be able to move forward with these two projects which are so important to President Batista, and I request that you inform President Batista personally in my name that decision has been taken which will permit the execution of these projects.

Believe me [etc.]

SUMNER WELLES

837.51/2950a

The Under Secretary of State (Welles) to the President of the Export-Import Bank of Washington (Pierson)

WASHINGTON, May 5, 1943.

MY DEAR MR. PIERSON: Reference is made to discussions between officers of the Department and of the Export-Import Bank regarding the procedure to be followed in financing the rehabilitation of the Habana waterworks.

⁷ Not printed.

As you know the residents of Habana are most anxious that this project be carried out as soon as possible, and the Department believes that it would represent a very useful and worthwhile civic improvement. The Department is therefore pleased to learn that officers of the Bank in their recent conversations with the Mayor of Habana and Dr. José E. Gorrin^s have been able to work out a tentative plan under which the project can go forward.

The Department has carefully considered the proposed plan, which provides in brief for the extension of a credit to a local Cuban non-profit corporation to be organized by the Municipality of Habana, all the stock of which would be endorsed in blank and delivered to the Export-Import Bank, and to which the Municipality would assign the present waterworks system and all appurtenances, as well as an irrevocable right to exclusive use of the revenues therefrom and to which the Municipality would grant an operating concession for the life of the credit.

In view of the political difficulties involved in attempting to secure the guarantee of the National Government to the credit, as well as the delay and possible indefinite postponement of the starting of the project which would result from any such attempt, the Department does not believe that it would be advisable to insist upon such a guarantee at this time, especially as the Department feels that the alternative procedure developed by the Bank provides a satisfactory solution to the problem.

Sincerely yours,

SUMNER WELLES

837.154/169 : Airgram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, June 19, 1943—12:10 p. m.

[Received June 21—3 p. m.]

A-1221. Amadeo López Castro has called on me with a representative of the consulting engineer^s to say that the Cuban Government is now in a position to award on short notice contracts for the reconstruction of the Central Highway. Before doing so however the Cuban Government seeks assurances from us that certain materials and supplies (mentioned below) will be available in the minimum amounts required and over the necessary periods. López Castro states that informal assurances in the premises were given to him in Washington, adding that obviously there would be no purpose in the American Government's offering to underwrite the project and to provide machinery unless we are also prepared to furnish fuel, et cetera.

^s Partner in the law firm of Rosales, Gorrin y Mañas.

^s Frederick Snare Corporation.

The Comisión de Fomento, in collaboration with the consulting engineer, has prepared the following statement of requirements:

1. 500,000 gallons of gasoline for use of 300 trucks. This amount will suffice for the entire reconstruction job, and would be consumed at the rate of approximately 35,000 gallons per month on the average. The possibility was discussed of substituting carburante from locally produced alcohol and this requirement is under urgent study between the Embassy and ORPA.¹⁰ We shall be in a position shortly to submit recommendations in the premises.

2. 1,000 tires to be delivered at the rate of one-third every three months, beginning as soon as possible after the award of the contracts. (López Castro spoke of "within one month of the award".) This is also under study with ORPA and the Agencia de Importación y Exportación, on the basis of supplying these tires from the estimates of supply for the third and subsequent quarters, and having in mind the possibility of supplying at least a part of the tire requirements by the local factory. Maximum conservation of tires could be secured using a procedure such as that developed by the Metals Reserve Company at Santiago de Cuba.

3. Asphalt. López Castro states that he was assured in Washington several months ago, at the time the asphalt-spreading machinery was under discussion, that the necessary supply would be made available. He states that local asphalt cannot be used for this purpose, and the Embassy's information confirms this. Because of the difficulty of handling asphalt by tanker (according to the consulting engineer this was tried and proved to be impracticable at the Guantánamo Naval Station) and the difficulty if not impossibility of shipping liquid asphalt by tank car via Seatrail, López Castro desires to import heavy petroleum to be processed by the Standard Oil Refinery at Habana, the gasoline and gas oil by-product (only very small relative amounts of which would be obtainable) to be deducted from the regular Cuban quota, as was done with the by-product of asphalt production by that company for our Army airport at San Julián.

López Castro believes that the gasoline, tires, and asphalt should be separate from, and if necessary in addition to Cuba's regular quota—that is, that they shall be on a war essential basis.

As indicated above, I shall submit detailed reports on the three requirement schedules at a very early date. In view of the urgency of the matter and the fact that the Cuban Government is understandably anxious to get to work on this project as quickly as possible (having in mind also the dead-season and its utility in providing employment) I should appreciate it if the Department would give preferred attention to the problem and if possible indicate, in advance of the receipt of the detailed studies, its general attitude toward 1) the possibility of treating the requirements on an urgent basis, and 2) the proposition that these supplies should be ex-quota.

BRIGGS

¹⁰ Oficina de Regulación de Precios y Abastecimientos.

837.154/169 : Airgram

The Secretary of State to the Chargé in Cuba (Briggs)

WASHINGTON, July 7, 1943—6:30 p. m.

A-1710. Your A-1221, June 19, 12:10 p. m. With regard to the supplies referred to for the reconstruction of the Central Highway, we have the following comments to make:

1. It is of the greatest importance that every effort be made to utilize *carburante* from locally produced alcohol to the maximum extent and to supply any gasoline which might be needed in addition to the *carburante* from Cuban allotments.

2. Any tires that cannot be supplied by the local factory should, as the Embassy suggests, be taken from Cuba's regular allocation of tires.

3. There does not appear to be any sound basis for supplying heavy petroleum for the production of the asphalt on a war essential basis. An additional allotment for this purpose will have to be within specified limits and gas oil and gasoline by-products will have to be considered as a part of the regular Cuban quota. Accordingly, you should send us a careful estimate of the minimum amount of heavy petroleum needed for the production of the asphalt.

HULL

837.154/172 : Airgram

The Chargé in Cuba (Briggs) to the Secretary of State

HABANA, July 14, 1943—3:30 p. m.

[Received July 16—7:56 a. m.]

A-1401. Referring Department's airgram No. A-1710 of July 7, 1943, 6:30 p. m., concerning asphalt, tires and gasoline for the Central Highway reconstruction.

1. Gasoline requirements are estimated by National Development Commission at 500,000 gallons total consumption over a 16 months' period. ORPA agrees to supply *carburante* for this purpose and to furnish from Cuba's regular quota any gasoline which may be needed in addition to the *carburante*.

2. Arrangements are being made for the *Agencia de Importación y Exportación* to issue the necessary Import Recommendation providing for the supplying of tires for the Central Highway job from Cuba's regular allocation of tires. The Embassy understands that Import Recommendations will be issued for tires from the quarterly estimates of supply, as tires are needed, and the Embassy is suggesting to the National Development Commission that the maximum conservation of tires would probably be obtained if the Commission were to use a procedure somewhat similar to that established by the Metals Reserve Company Agency at Santiago de Cuba, in furnishing tires for mining companies.

3. Information concerning the requirements of fuel oil for use in the production of the asphalt needed for the Central Highway job, together with the Embassy's recommendation in this connection were furnished in despatch No. 3719 of July 7, 1943.¹¹

In further reference to this matter, it may be stated that only with the greatest difficulty and since the beginning of the present month has it been possible to bring Cuba's nonessential fuel oil consumption down to the 40 percent figure.¹² The Central Highway reconstruction requirements of asphalt total 6,500,000 gallons, for the production of which approximately 230,000 barrels of heavy fuel oil are required. If this quantity of 230,000 barrels is not supplied outside of Cuba's regular nonessential quota, a drop in the general allotment for all other nonessential purposes would ensue from 40 to 30 percent. ORPA advises that such a reduction (25%) in quota is not possible to carry out and the Embassy considers it inadvisable to attempt to force such a reduction. In view of these circumstances and having in mind also the statement in the Department's telegram No. 44 of January 9, 1943 to the effect that "The Department has informally indicated to the Cuban Commission that adequate asphalt supplies are likely to be made available", the Embassy recommends that these 230,000 barrels be authorized as a national economy essential.¹³

As mentioned in the Embassy's despatch No. 3719, the by-products that might be obtained will form part of the regular Cuban quota.

BRIGGS

837.151/301

*Memorandum by the Legal Adviser of the Embassy in Cuba (González) to the Counselor of Embassy for Economic Affairs (Nuffer)*¹⁴

HABANA, August 21, 1943.

MR. NUFER: Following your instructions I have very carefully gone over the whole file in the matter of the Havana Waterworks, and have specially scrutinized the draft of the agreement between the Corporation and Export-Import Bank; the concession from the

¹¹ Not printed.

¹² Forty percent of 1941 consumption, plus war essentials and such additional amounts as might be proved to be absolutely necessary to prevent serious economic dislocation and which can be supplied by available transportation facilities.

¹³ The Secretary of State, in airgram A-1927 of August 7, 1943, informed the Embassy that the Essential Requirements Committee had approved supplying, as an additional allotment, the fuel oil needed for the Central Highway reconstruction.

¹⁴ Copy transmitted to the Department by the Ambassador in his despatch No. 4233 of August 21; received August 25.

Municipality to the Corporation and the Instrument discharging the outstanding first and second mortgages on the Havana Waterworks.

My examination and scrutiny have been limited to finding any loopholes in the main instruments (agreement and concession) which might give the remotest chance of graft, sinecures, etc.

I find that these instruments, from a legal viewpoint, are admirably drafted and certainly are the most effective way of putting through this negotiation in light of the present provisions of law, removing therefrom any possibility of intervention or tampering by politicians.

The concession turns over the whole Havana Aqueduct, its management and reconstruction, and the obtaining financing therefor, to the Corporation, and I see no way in which, once this concession has been legally and effectively granted, the politicians can have further intervention in the affair. This, of course, is provided the concession is granted in the specific terms set forth in the draft instrument containing the same.

The agreement between the Corporation and the Municipality closely follows the terms of the concession granted to the Corporation and provides further safeguards as to expenditures of monies, appointments of contractors and sub-contractors, disposition of funds, etc. The very close check placed on the whole construction work by the Engineer Supervisor and the fiscalization of expenditures and accounting by the Contador Interventor make it very difficult for any monies to be used for purposes other than those for which they are meant.

I can see nowhere any semblance of a loophole to permit graft or "botellas", because the politicians, once the concession is granted to the Company, have nothing further to say in the matter. The fact that the plan is so fool-proof is precisely why it has met with opposition on the part of those who could and would like to profit by the usual methods in vogue here in public works projects.

L[EOBARDO] L. G[ONZÁLEZ]

837.51 Cooperation Program/217

*The President of the Export-Import Bank (Pierson) to
Mr. J. A. Wigmore*¹⁵

[WASHINGTON,] September 23, 1943.

DEAR MR. WIGMORE: Acknowledgment is made of your letter of September 9¹⁶—which was delivered to this office by Leslie Garnett,

¹⁵ President of the Canadian American Company, Inc., of Cleveland, Ohio.

¹⁶ Not printed.

Esquire,¹⁷ on September 17—regarding your interest in financing the rehabilitation of the waterworks system of the City of Havana, Cuba, in a sum not to exceed \$15,000,000.

The project to which your letter has reference is one upon which the Export-Import Bank has been working for several years. We have practically reached an agreement as to the terms and conditions of the proposed financing. These naturally involve certain commitments regarding engineering and supervisory services. Mayor Menocal plans to visit us within the next few days for the purpose of arranging the final details.

The Export-Import Bank has always sought to supplement rather than supplant private capital and we will be glad to have the financing of the rehabilitation of the Havana Waterworks supplied by private sources, provided such financing is upon satisfactory terms and conditions. In view, however, of the present status of this particular commitment and the obligations which have been incurred in connection therewith, it naturally follows that any modification of the arrangements at this late date must receive the approval of the authorities of the Municipality of Havana.

We will refer your letter to Mayor Menocal promptly upon his arrival.

Sincerely yours,

[WARREN L. PIERSON]

837.51/2957

The Secretary of State to the Ambassador in Cuba (Braden)

No. 2586

WASHINGTON, November 25, 1943.

The Secretary of State refers to the Embassy's 5025 of November 4, 1943¹⁸ referring to a credit of \$300,000 made available to the Cuban National Development Commission by the Export-Import Bank for the rehabilitation of the telegraph and telephone system of the Cuban Government.

The credit under reference is included in the attached list of projects approved by the Export-Import Bank, totaling \$23,757,230.78.

[See the enclosure printed on facing page.]

¹⁷ Lawyer for the Canadian American Company, Inc.

¹⁸ Not printed.

[Enclosure]

CREDIT FILE #294
Republic of Cuba

<i>Proj. No.</i>	<i>Description</i>	<i>Approvals</i>	<i>Final Approvals</i>
1	Central Highway	Jan. 7, 1943 \$6,080,254.26	
2	Santiago	July 31, 1943 1,357,890.47	\$7,438,144.73
3	Guantánamo	Jan. 6, 1943 3,247,797.76	
4	Rio Buey	Nov. 10, 1943 219,066.12	3,466,863.88
5	Refrigerated Warehouses (see letter of Nov. 12 to Molins Pi ¹⁹)	Jan. 7, 1943 2,964,004.59	2,964,004.59
		Feb. 10, 1943 319,067.01	319,067.01
		Feb. 11, 1943 1,566,200.00	
		Apr. 13, 1943 reduced to:	
		Bldgs. 792,350.57	
		Eqpmt. 682,000.00	
		Land 4,800.00	
6	Agricultural Machinery	1,479,150.57	1,479,150.57
7	Tributary Roads	300,000.00	300,000.00
8	Country Roads	7,450,000.00	7,450,000.00
9	Telegraph Equipment	40,000.00	40,000.00
		300,000.00	300,000.00
			\$23,757,230.78

NOVEMBER 12, 1943.

¹⁹ Not found in Department files.

837.51 Cooperation Program/232

*Memorandum by the Chief of the Division of the American Republics
(Bonsal) to the Adviser on Political Relations (Duggan)*

[WASHINGTON,] November 26, 1943.

MR. DUGGAN: The Habana waterworks proposition poses a rather difficult problem. The Export-Import Bank has, I understand, been willing to finance this project provided adequate legal and practical guarantees were set up. However, after several years of discussions between representatives of the Bank and of the municipality, to some extent also involving the two Governments, the municipality has now apparently decided to make a deal with the Canadian American Company. . . .

It does not seem to me that we can interfere officially or unofficially in this matter at this time in the sense of advising the Cubans for or against the proposition. However, I do think that it might be advisable to convey to President Batista the thought that if this enterprise is undertaken on the basis of private financing it will not necessarily be possible for the Export-Import Bank to be of assistance should the private financing prove inadequate. It would therefore seem of the very greatest importance that before any binding commitments are entered into, the Cuban Government make absolutely certain that they are making a contract with a responsible group and not signing an instrument which that group will later try to peddle around as a speculation.²⁰

PHILIP W. BONSALE

837.51 Cooperation Program/222

The Ambassador in Cuba (Braden) to the Secretary of State

No. 5661

HABANA, January 11, 1944.

[Received January 14.]

SIR: Supplementing the Embassy's air mail despatch No. 5205 of November 22, 1943 ²¹ (file No. 851), and previous correspondence in the matter, I have the honor to report that according to Treasury sources, the proceeds from the taxes established by Law No. 31 of November 22, 1941, for the service of the \$25,000,000 Export-Import Bank credit, which became effective on January 1, 1942, totalled 12,237,511 pesos during the first two years of their existence. Of these collections, 10.5 million pesos which were in excess of loan service requirements were transferred to the 1942 and 1943 regular Cuban budgets.

²⁰ No conclusion to the problem of financing the Habana Waterworks was reached in 1943.

²¹ Not printed.

On the basis of present estimates as to the size of the 1944 Cuban sugar crop, it is expected that collections from the taxes under reference will exceed 7,000,000 pesos during 1944. If so, total collections for the years 1942 to 1944 will exceed 19,000,000 pesos, or over 75 percent of the entire credit.

In view of the foregoing, the question is frequently raised, especially in the opposition press, why the Cuban Government did not undertake the several public works and agricultural diversification projects to be executed from the proceeds from the \$25,000,000 credit out of current income, instead of saddling the Cuban people with an increase in Cuba's foreign indebtedness. While this question is a logical one under the circumstances, it could, of course, hardly be foreseen in 1941 that economic conditions in Cuba would improve so materially and that the taxes would therefore produce the very large revenues collected to date. Moreover, according to the Embassy's observations the rank and file of the Cuban people doubtless prefer to have the projects executed under the safeguards established by the Export-Import Bank (regardless of the resultant increase in Cuba's foreign debt), in view of the assurance that the money will be spent for the purposes for which it is intended. They realize that had the Government undertaken the execution of the projects out of current income, only a fraction of the money appropriated would, in keeping with the usual practice, probably have been spent thereon, and the benefits which Cuba's economy would have derived therefrom would at best have been problematical.

Respectfully yours,

For the Ambassador:

ALFRED E. NUFER

*Counselor of Embassy for
Economic Affairs*

**REPRESENTATIONS TO THE CUBAN GOVERNMENT REGARDING
TAXATION OF UNITED STATES GOVERNMENT AGENCIES IN CUBA**

811.512337 Shipping/2

The Ambassador in Cuba (Braden) to the Secretary of State

No. 1567

HABANA, November 20, 1942.

[Received November 23.]

SIR: I have the honor to refer to the Department's air mail instruction No. 754 of October 8, 1942 (file No. 800.512311 Shipping/2 [811.512337 Shipping/1]), regarding the apparently improper assessment and collection by the Cuban Government of taxes on revenues earned by vessels either owned by or chartered to the War Shipping

Administration,²³ and to the Department's airgram A-293 of October 27, 1942, 7:30 p. m.²⁴ on the general question of the exemption from taxation of all undertakings of our Government in Cuba.

There are enclosed copies of the Embassy's notes to the Foreign Office No. 731 of October 15, 1942,²⁴ requesting exemption from taxes collected on operations of vessels either owned by or chartered to the War Shipping Administration; No. 811 of November 2, 1942,²⁴ claiming exemption from taxes on all undertakings of our Government in Cuba; and No. 847 of November 9, 1942, requesting specifically, in connection with the Embassy's previous request, tax exemption for the operations here of the Metals Reserve Company.²⁵ There are also attached copies and translations of Foreign Office notes Nos. 1124 and 1125 of November 14, 1942,²⁶ in reply thereto.

In Foreign Office note No. 1124, which deals with the Embassy's request for tax exemption in the case of War Shipping Administration vessels, the Embassy's attention is called to a letter from the Minister of Finance²⁷ attached thereto in which he expresses the opinion that as the taxes in question, namely, the 2.65 percent tax on the gross freight and passenger earnings and the 3.60 percent tax on gross income derived from freight and passenger charges, constitute important sources of revenue, it would not be advisable to suspend their collection. He also points out that of the 2.65 percent tax, 1.25 percent is pledged to the public debt service and therefore cannot, in his opinion, be suspended legally (The Department will recall that similar arguments were advanced by the Cuban Government at the time exemption from this particular tax, known as the gross sales tax, was sought on behalf of the Nicaro Nickel Company and that as a result the company's attempts to obtain exemption from this tax were subsequently abandoned).²⁸ It will be noted that in spite of the Minister of Finance's recommendations, the Minister of State, in Foreign Office note No. 1124, informs the Embassy that studies are being

²³ Instruction No. 754 not printed; it requested the Ambassador to bring the facts to the attention of the appropriate Cuban officials and endeavor to have them discontinue those taxes on an agency of the United States Government.

²⁴ Not printed.

²⁵ Embassy's note No. 847 not printed; it reminded the Ministry of State that the Metals Reserve Company was an agency of the United States Government, financed and controlled by that Government, and created for the purpose of purchasing vital metals and supplying them to the mutual war effort.

²⁶ Neither printed.

²⁷ José Miguel Irisarri; letter not printed.

²⁸ The attempt was abandoned, partly because the Department in August 1942 considered the Nicaro Nickel Co. in Cuba to be a Cuban company and therefore deemed it inadvisable to request tax exemption through diplomatic channels. However, the Department in its airgram A-293 of October 27, 1942, informed Ambassador Braden that a request for tax exemption might properly be made for the Nicaro Nickel Company for the reason that it was in fact an American corporation contributing to the joint war aims of the two nations (837.512/650). The Ambassador requested this exemption in a formal note, No. 148 of January 29, 1943, p. 263.

made in order to ascertain to what extent the national economy would suffer from the elimination of the taxes under reference so that, if it were found that the attendant loss of revenue would not be too severe, steps to accede to the Embassy's request could be taken.

Foreign Office note No. 1125 deals with the sought-for general exemption from taxes on all undertakings of our Government in Cuba and to the request for exemption from taxes on the local operations of the Metals Reserve Company. As in the case of note No. 1124, note No. 1125 is based on a letter from the Minister of Finance, attached thereto, in which he expresses the opinion that our requests might be considered insofar as they refer to taxes assessed on official agencies of our Government or on articles or products to be used in defense projects by private contractors or to taxes which they (the contractors) may pass on (presumably to such official agencies of our Government). It is the Minister of Finance's opinion, however, that it would not be proper to exempt from existing taxes the earnings and profits of the contractors themselves.

The Minister of State has interpreted the Minister of Finance's opinion in the sense that official agencies of our Government should be exempted from all taxes and, in accordance with the last paragraph of note No. 1125, instructions are being issued to the Ministry of Finance to prepare a decree granting tax exemption to the operations in Cuba of the Metals Reserve Company as sought for in the Embassy's note No. 847 and to undertake a study with a view toward granting the general tax exemption referred to in the Embassy's note No. 811.

Note No. 1125 appears satisfactorily to settle the tax problem of the Metals Reserve Company, and Mr. George W. Tower, the representative of that Government agency in Cuba, has been so informed. It also appears to accept, at least in principle, our contention that all undertakings of the United States Government in Cuba should be exempted from taxation when the tax is levied on a defense project whether carried on by an agency of our Government or by a private contractor for governmental account; when the project is financed and controlled by the Government of the United States for a public purpose; and when the burden of the tax would fall upon the United States Government.

The apparent unwillingness of the Cuban Government to extend such exemption to the earnings or profits of private contractors engaged in the execution of Government projects would not appear substantially to detract from the value of the concession which it seems disposed to grant, but the Department's views and comments in connection with this particular phase of the matter would be appreciated.

Inasmuch as the War Shipping Administration is an official agency of our Government, there appears to be a discrepancy between note No. 1124, in which it is stated that exemption from taxation in the case of vessels owned by or chartered to that agency will be considered favorably only if the resulting decrease in revenues is not too severe, and note No. 1125, in which it is admitted that all official agencies of our Government should be exempted from taxes and, in fact, thus specifically exempting the operations of the Metals Reserve Company. The Embassy has not as yet brought this apparent discrepancy to the attention of the Cuban Government and before doing so it would appreciate receiving the Department's further instruction. In issuing such instructions, the Department may wish to consider the arguments advanced by the Minister of Finance that the suspension of the 3.60 and 2.65 per cent taxes would substantially curtail Cuban revenues and that of the 2.65 per cent tax, 1.25 per cent is pledged to the service of Cuba's foreign debt. It may also wish to consider the fact that any substantial reduction in revenues would increase Cuba's budgetary difficulties proportionately and might well result in Cuba's having to look to us for financial assistance in order to eke out its budgetary revenues. Moreover, the Cuban Government, although it has not done so, could allege with some justification that the vessels owned by or chartered to the War Shipping Administration are more or less the same vessels which, privately owned, previously plied between United States and Cuban ports, so that the activities of the War Shipping Administration, unlike those of the Metals Reserve Company, the Nicaro Nickel Company, etc., have not, strictly speaking, made any additional contribution to Cuba's economy. In other words, while tax exemptions in respect of the Metals Reserve Company, the Nicaro Nickel Company, etc., would merely deprive Cuba of additional tax revenue, tax exemption in respect of the operations of the War Shipping Administration would deprive Cuba of income which has in the past constituted a substantial part of its budgetary revenues.

Respectfully yours,

For the Ambassador:
ALBERT F. NUFER
*Counselor of Embassy for
Economic Affairs*

837.512/666

*Memorandum by the Assistant Chief of the Division of the American Republics (Walmsley)*²⁹

[WASHINGTON,] January 21, 1943.

CUBAN TAXATION ON UNITED STATES GOVERNMENT COMMERCIAL
OPERATIONS

I have from the beginning seen no justice in seeking exemption from taxation by the Cuban Government on operations of a commercial nature which, as an incident to the war, are carried on by a United States Government agency. The mere fact that most or all United States vessels in the Cuban trade are operated by and in behalf of the War Shipping Administration, does not justify asking the Cuban Government to surrender through taxation exemption a source of normal public revenue.

Plausible reasons might be adduced for seeking exemptions from certain types of taxes on United States Government officials working in Cuba on war enterprises, and on materials intended to develop war production. However, even here a line must be drawn between what would be normal commercial expansion to meet war demands, and expansion solely as a result of United States Government initiative and capital. Even in the latter case I would see no justice in seeking exemptions from taxes and levies of a Social Security nature.

In a nutshell, I cannot see how a foreign government can be expected to give up normal sources of revenue merely because the United States replaces private initiative for war purposes.

W. N. WALMSLEY, JR.

837.512/662

*The American Ambassador in Cuba (Braden) to the Cuban Minister of State (Martínez)*³⁰

No. 148

HABANA, January 29, 1943.

EXCELLENCY: I have the honor to refer to Your Excellency's note No. 1125 of November 17, 1942³¹ in connection with the general question of tax exemption to be accorded United States undertakings

²⁹ Addressed to the Chief of the Division of the American Republics (Bonsal) and to the Adviser on International Economic Affairs (Feis). Both Mr. Bonsal and Mr. Feis indicated in the margin their agreement with this statement.

³⁰ Copy transmitted to the Department by the Ambassador in his despatch No. 2125 of February 4; received February 11.

³¹ Not printed; this note was dated November 14 and registered for dispatch on November 17.

in Cuba. As pointed out in my note No. 811 of November 2, 1942,³² the Government of the United States has consistently maintained that, in accordance with the recognized principles of international law, foreign governments should not be taxed on their personal property in the United States devoted to governmental purposes and exemption from taxation has therefore been granted to plant equipment and supplies used for the production of war materials by private American companies whose operations are financed and controlled by foreign governments. Your Excellency's Government would appear to have established a similar principle as evidenced by communication No. 2967 of November 11, 1942³² from His Excellency the Minister of Hacienda, a copy of which was enclosed with Your Excellency's note No. 1125.

By agreement and decree of Your Excellency's Government, the gross sales tax of 2.65% has not been charged the United States Government projects at San Antonio de los Baños, Metals Reserve Corporation stockpile operations at Santiago de Cuba, and certain other similar projects. This tax has, however, been collected on the project which is being carried out by the Nicaro Nickel Company at Preston for the United States Government. Funds for the acquisition and equipment of the plant at Preston are being supplied by the United States Government and, therefore, any Cuban taxes assessed and collected on this project must be paid by the United States Government.

In view of the principles set forth in Your Excellency's above-mentioned correspondence and of the practice established in connection with other United States Government projects in Cuba, I am sanguine that Your Excellency's Government will find it possible to exempt the Nicaro Nickel Company development from the 2.65% gross sales tax, whether the work is done by the Nicaro Nickel Company itself, by the Frederick Snare Corporation,³³ or by another contractor or agency, since the tax falls ultimately on the United States Government.

Please accept [etc.]

SPRUILLE BRADEN

837.512/666

Memorandum by Miss Anna A. O'Neill, Assistant to the Legal Adviser (Hackworth), to the Assistant Chief of the Division of the American Republics (Walmsley)

[WASHINGTON,] February 6, 1943.

MR. WALMSLEY: A reply to your memorandum of January 21, 1943 has been delayed due to the inability of this office to find the letter from

³² Not printed.

³³ An engineering and construction firm with headquarters in New York City and wide business interests in Latin America.

the War Shipping Administration of August 4, 1942 (September 4) ³⁴ which was the incentive for the Department's formal request of Cuba to discontinue the collection of taxes on revenue derived from the operation of vessels under the control of the United States.

I. As you will recall, the Department's request was set out in instruction no. 754 of October 8, 1942 ³⁵ and the reply of the Cuban Government is contained in Foreign Office note no. 1124 of November 17, 1942 (with enclosure), ³⁶ despatch no. 1567 of November 20, 1942. That reply reads in part:

"With regard to this matter I am pleased to enclose for Your Excellency's information a communication sent by the Minister of Finance to the Prime Minister ³⁷ of this Government, containing said Department's official opinion in regard to this matter.

"At the same time I am pleased to inform Your Excellency that calculations are being made in order to ascertain to what extent the national economy would be prejudiced by the possible suppression of these taxes so that, in case it would not appreciably affect (revenue) collections, the request (of the Embassy) may be granted."

The matter is thus being considered by Cuba apparently not on the basis of law but with a view to their national economy. Certain calculations are also being made by the War Shipping Administration (letter January 4, 1943—837.512/660 ³⁴).

The Department's position is based on the well recognized principle of international practice (which in the United States is evidenced by statutory enactment) that the revenue of foreign countries [*governments?*] derived from whatever source in the taxing country should be exempted from the payment of taxes. The following provisions of the United States Revenue Code ³⁸ have direct application to the problem in hand.

"Sec. 22. Gross Income.

"(a) General Definition.—'Gross income' includes gains, profits, etc.

"(b) Exclusions from Gross Income.—The following items shall not be included in gross income and shall be exempt from taxation under this chapter: ³⁹

"(8) Miscellaneous Items.—The following items, to the extent provided in section 116: ³⁹

"The income of foreign governments;" (page 9-11)

³⁴ Not printed.

³⁵ See footnote 23, p. 260.

³⁶ Neither printed. Note No. 1124 was dated November 14 and registered for dispatch on November 17.

³⁷ Ramón Zaydín.

³⁸ U.S.C., title 26.

³⁹ The following omission indicated in the original memorandum.

"Sec. 116. Exclusions from Gross Income.

"In addition to the items specified in section 22 (b), the following items shall not be included in gross income and shall be exempt from taxation under this chapter.⁴¹

"(c) Income of Foreign Governments.—The income of foreign governments received from investments in the United States in stocks, bonds, or other domestic securities, owned by such foreign governments, or from interest on deposits in banks in the United States of moneys belonging to such foreign governments, or from any other source within the United States."

"Sec. 212. Gross Income.

"(a) General Rule.—In the case of a nonresident alien individual gross income includes only the gross income from sources within the United States.

"(b) Ships Under Foreign Flag.—The income of a nonresident alien individual which consists exclusively of earnings derived from the operation of a ship or ships documented under the laws of a foreign country which grants an equivalent exemption to citizens of the United States and to corporations organized in the United States shall not be included in gross income and shall be exempt from taxation under this chapter."

"Sec. 231. Tax On Foreign Corporations.

"(a) Nonresident Corporations.⁴¹—

"(d) Ships Under Foreign Flag.—The income of a foreign corporation, which consists exclusively of earnings derived from the operation of a ship or ships documented under the laws of a foreign country which grants an equivalent exemption to citizens of the United States and to corporations organized in the United States, shall not be included in gross income and shall be exempt from taxation under this chapter."

The Bureau of Internal Revenue informs this office that the following Latin American countries now grant equivalent exemption of taxes on revenues derived from the operation of ships by citizens of the United States: Argentina, Guatemala, Honduras, Panama, Paraguay, Uruguay and Venezuela. Before the present war certain European countries also granted the exemption, among them being Belgium, Poland, Denmark, France, Germany, Great Britain, Greece, Irish Free State, Italy, Norway, Sweden and Switzerland.

Section 116 (c) of the Internal Revenue Code, which is declaratory of international law, is the statutory authority for the full exemptions granted to foreign countries, while both foreign citizens and corporations on conditions of reciprocity are by Sections 212 (b) and

⁴¹ The following omission indicated in the original memorandum.

231 (*d*) exempted from taxation on incomes derived through the operation of ships documented under foreign laws.

II. The legal basis for this Government's position concerning exemption from taxes on other United States Government activities in Cuba is set out in the first paragraph of the Department's airgram A-293 of October 27, 1942 which reads:

"Your A-157, September 7, 9:30 a. m.⁴²

"The Department has consistently maintained that, in accordance with a recognized principle of international law, foreign governments should not be taxed on their personal property in the United States devoted to governmental purposes, and exemption from taxation has been granted to plant equipment and supplies used for the production of war materials by private American companies whose operations are financed and controlled by foreign governments."

III. Commenting on the Department's position regarding tax relief in Cuba, you conclude in your memorandum thus:

"In a nutshell, I cannot see how a foreign government can be expected to give up normal sources of revenue merely because the United States replaces private initiative for war purposes."

If Cuba will recognize her obligation under international law, the revenue under consideration while derived from "normal sources" will nevertheless be entitled to the exemptions requested.

IV. As formal representations have already been made to the Cuban Government (no. 754 of October 8, 1942 and airgram no. A-293 of October 27, 1942) with definitely favorable results on one group and the other group still pending, is this office to understand that your memorandum of January 21, 1943 with notations by Mr. Bonsal and Mr. Feis is to be regarded as a change or reversal of the Department's present position, and if so, may Le⁴³ have the benefit of your views on an appropriate reply to the Embassy's despatch no. 1567 of November 20, 1942, particularly page 3, and comments on War Shipping Board's letter of January 4, 1943, also.

⁴² Not printed; the Ambassador requested clarification of the Department's position regarding applicability of Cuban gross sales and revenue tax to various projects underwritten by the United States Government (811.20 Defense (M)/8960).

⁴³ Office of the Legal Adviser.

837.512/666

*Memorandum by Mr. Willard F. Barber of the Division of the
American Republics*⁴⁴

[WASHINGTON,] March 30, 1943.

CUBAN TAXATION ON OPERATIONS OF THE UNITED STATES WAR
SHIPPING ADMINISTRATION

At Mr. Walmsley's request I have studied the attached file⁴⁵ and have given the matter considerable thought. My conclusions are as follows:

(1) There is a fundamental legal principle at stake which is of considerable importance.

(2) It seems advisable to obtain the tacit or explicit acceptance of this principle by the Cuban Government. It appears as a matter of fact, that it has already made an indication of its acceptance of the principle in its note no. 1125 of November 14, 1942.⁴⁶

(3) If the failure to receive anticipated revenues from taxes on the operations of the vessels of the War Shipping Administration should seriously prejudice the stability of Cuban finances other means might well be used to grant the necessary emergency assistance which would not involve any prejudice to this Government's rights or legal position. The calculations as to the amount of tax which the War Shipping Administration's letter of January 4⁴⁶ contains makes it appear that the sacrifice by Cuba will not be as great as had been previously estimated. This calculation brought to the attention of the Cuban Government, in conjunction with its statement with its own calculations as to the burden of the tax (Cuban Foreign Office's note no. 1124 of November 17, 1942⁴⁶) might well bring the Cuban Government into agreement with us without undue strain on our friendly relations.

(4) I believe that the request of the War Shipping Administration for the tax exemption is proper and should be supported. It is therefore desirable to concur with the points raised in Le's memorandum of February 6⁴⁷ and to proceed with an instruction to our Embassy at Habana along the lines of Le's draft of January 20.⁴⁶

Additional information or argumentation on the conclusions enumerated above is submitted herewith.

(1) *There is a fundamental legal principle at stake which is of considerable importance.*

It is a well recognized principle of international law that the revenues of foreign governments should be exempted from the payment of taxes. This is recognized not only in our own law and in

⁴⁴ Addressed to Messrs. Bonsal, Walmsley, and Scherer of the Division of the American Republics and to Miss Anna A. O'Neill, assistant to the Legal Adviser.

⁴⁵ Memorandum of January 21 by the Assistant Chief of the Division of the American Republics, p. 263.

⁴⁶ Not printed.

⁴⁷ *Supra.*

the decisions of the United States Supreme Court, but also by the practice, the laws and judicial decisions of other nations. A fundamental legal principle is involved going far beyond the present instance of War Shipping Administration vis-à-vis Cuba. It is obvious that without the establishment and constant safeguarding of this principle of tax exemption the operations of the OLLA,⁴⁸ the CCC,⁴⁹ the Rubber Development Corporation, the Defense Supplies Corporation and other agencies of this Government would be seriously handicapped. These and other agencies of our Government conduct operations in an ever increasing number of foreign jurisdictions. For them to be subject to taxation by each country through which the goods might pass or where the operations are being conducted, would result in an impossible situation: the multiplication of costs and the restrictions of many governments' regulations. Compared to this the narrow and limited Cuban budgetary considerations are decidedly secondary.

While it is true that the War Shipping Administration is conducting a function under the aegis of Government authority which in normal times would have been a matter of ordinary business and commercial transaction, the answer is that the Defense Supplies Corporation, the Export-Import Bank, the Agricultural Marketing Administration, the Commodity Credit Corporation, and other agencies of the Government are entering fields and are conducting negotiations in realms which in normal times, or in peace times, or in earlier times, were considered to be the businessman's sphere. Obviously, this Government on principle could not permit the operations, the property and the functions of these agencies to be subjected to such local taxation abroad as would subject them to alien control and veto.

(2) *It seems advisable to obtain the tacit or explicit acceptance of this principle by the Cuban Government.*

The third paragraph of the Cuban Foreign Office's note no. 1125 of November 17 tacitly admits the principle that an official agency of the United States Government should be exempt from local taxation.

(3) *Decrease in Cuban Government Revenues.*

(a) The amount of revenues which the Cuban Treasury may not receive is a matter which had been calculated by the War Shipping Administration and which is being calculated by the Cuban Treasury. The War Shipping Administration estimates that the suspension of the taxes would amount to a decrease in revenues of a sum less than \$160,000. (b) The amount of loss in revenue is comparatively in-

⁴⁸ Office of Lend-Lease Administration.

⁴⁹ Commodity Credit Corporation.

significant. (c) The expenditures of this Government through Export-Import Bank, naval and aviation construction and maintenance, and its assistance in the sugar industry and in a variety of other ways, more than makes up for the comparatively slight decrease in revenues represented by the figure cited above. (d) Cuba, as have the United States and other belligerent Governments, has found some new and additional sources of tax revenue, and may find it necessary to increase the rates and amounts of taxes already imposed. That is a part of the cost of war. (e) It is not the function or the purpose of the War Shipping Administration to conduct its operations in such a way as to underwrite governmental budgets and estimates of revenues made by other countries. When and if that purpose is intended we have other ways of accomplishing the purpose; and it can be done without yielding on legal points which would have embarrassing and costly results in our relations with other countries.

WILLARD F. BARBER

811.512337 Shipping/2

The Secretary of State to the Ambassador in Cuba (Braden)

No. 1510

WASHINGTON, April 14, 1943.

SIR: The Department has carefully considered your despatch no. 1567 of November 20, 1942 concerning the general question of tax exemption on United States Government undertakings in Cuba.

The Foreign Office Note No. 1124 concerning exemption from taxes on earnings in Cuba of the War Shipping Administration transmits a copy of an opinion of the Ministry of Finance dated November 9, 1942, holding that the \$3.60 tax (on freight or passenger earnings) forms an important factor in the country's income at the present time, and that it therefore would not be advisable for the Treasury to suspend it; while the \$2.65 tax is (on gross income) pledged, \$1.25 to the service of foreign obligations, which cannot be legally suspended, and \$1.40 being an Internal Revenue measure "which it would not be advisable for the Treasury to suspend". Notwithstanding the opinion of the Minister of Finance, the Foreign Office Note No. 1124 states "that calculations are being made in order to ascertain to what extent the national economy would be prejudiced by the possible suppression of these taxes, so that in case it would not appreciably affect collections, the request [of the Embassy] may be granted". It may, in the Embassy's discretion, be advisable to await the result of the calculations referred to, and should this be the case, the Embassy may seek a favorable opportunity to press for an early determination of these calculations.

Your note to the Foreign Office, No. 731, of October 15, 1942,⁵² is a clear statement of the Department's position on the principle of law involved. An added argument for the exemption requested is the fact that the War Shipping Administration is an agency of this Government and the present request falls well within sub-paragraph (a) of the communication of the Minister of Finance dated November 11, 1942 (enclosure to Foreign Office Note No. 1125 of November 17, 1942). The concluding paragraph of this communication reads, "It does not, however, seem just that the contractor be exempted from taxes on profits or earnings, since even though the work may be for defense purposes, not only does it seem fitting that individuals should contribute from their earnings in the state in which they are derived toward defraying its expenses, but it would, in fact, be extremely unjust to exempt them, while other private enterprises, precisely because of the war, see their earnings and margins of profit dwindle from day to day".

The Department assumes that this paragraph covers both individuals and corporations of American and foreign nationality who act as contractors and subcontractors for this Government on defense projects. The term "profits or earnings" may lend itself to confusion in interpretation. What, if any, application would the Cuban income tax law have on the groups indicated in this paragraph?

Having these observations in mind, the Department feels that you should request of the Foreign Office a clarification of the paragraph above quoted. The Department transmits, for your information and comment, a copy of a letter dated January 4, 1943⁵² from the War Shipping Administration. You will observe that the figure \$320,000 is given as the tax collections which would be realized on earnings from May 1942 to December 1942, but as a result of Cuban Government Decree No. 2602, it is estimated that this figure could probably be cut by more than 50 percent. In view of the relatively small amount involved and the desirability of maintaining the important principle involved, the Department feels that you might use the information set forth by the War Shipping Administration to advantage in your efforts to accelerate the conclusion of the calculations mentioned above.

Very truly yours,

For the Secretary of State:
BRECKINRIDGE LONG

⁵² Not printed.

811.512337 Shipping/3

*The American Ambassador in Cuba (Braden) to the Cuban Minister of State (Santovenia)*⁵³

No. 414

HABANA, April 20, 1943.

EXCELLENCY: I have the honor to refer to Your Excellency's distinguished predecessor's courteous note No. 1124 of November 14, 1942, with which was enclosed a letter from the Minister of Finance addressed to the Prime Minister⁵⁴ with regard to my Government's request that the earnings of vessels either owned by or chartered to the War Shipping Administration be exempted from the 2.75 per cent tax established by Article III of Military Order No. 423 of 1900, as amended by Article XV of the Law of July 6, 1928; by the Emergency Tax Law of September 8, 1941; and by Law No. 7 of April 5, 1943, and from the 3.6 per cent tax established by the Law of October 9, 1922, as amended by the Public Works Law of July 15, 1925; Decree-Law No. 393 of November 8, 1935; a decree of December 20, 1939; and Decree No. 3520 of December 31, 1941.

In that note Your Excellency's predecessor stated that investigations were being made in order to ascertain to what extent the economy of Cuba would be prejudiced by the possible suppression of these taxes, so that in case it were found that their suppression would not appreciably affect revenue collections, my Government's request might be granted.

As mentioned in the Embassy's note No. 731 of October 15, 1942, to which note No. 1124 was a reply, the earnings on which the tax exemptions are sought are derived from the operation of three classes of vessels, namely *a*) those owned by the United States; *b*) those on bareboat charter to the War Shipping Administration, and *c*) those on time charter to the War Shipping Administration. In all these cases the vessels are under the complete control of my Government, represented by the War Shipping Administration, and carry only such cargo, ply on only such routes and otherwise render only such services as my Government determines and directs. The operations of these vessels are, of course, coordinated with other essential operations of my Government and of the Governments allied or co-operating with it in the prosecution of the war and, therefore, in view of the existing conditions throughout the world, all such services can appropriately be considered as not only public services rendered in the interest of my Government, but also, to a corresponding degree, as public services rendered in the interest of all Governments associated in the common cause against the Axis powers.

⁵³ Copy transmitted to the Department by the Chargé in Cuba in his despatch No. 3459 of June 12; received June 15.

⁵⁴ Ramón Zaydín.

It was also pointed out in the Embassy's aforementioned note No. 731 that, in the opinion of my Government, the collection of the taxes under reference on the earnings of vessels either owned by or chartered to the War Shipping Administration constituted taxes on revenues accruing to the United States, and I brought to the attention of Your Excellency's Government the fact that my Government does not collect taxes on earnings in the United States derived by other Governments from the operation of ships.

I might add at this time that inasmuch as the War Shipping Administration is an official agency of my Government, the exemptions requested fall well within sub-paragraph *a*) of the communication of the Minister of Finance of November 11, 1942,⁵⁵ of which a copy was enclosed with Your Excellency's predecessor's note No. 1125 of November 14, 1942, in which it was stated that consideration should be given to requests for exemption from Cuban taxes when such requests were made by and on behalf of official agencies of a friendly Government.

I venture to express the hope, therefore, that the investigations mentioned in note No. 1124 have now been completed and that Your Excellency's Government will shortly be able to arrive at a favorable decision in the matter.

Please accept [etc.]

SPRUILLE BRADEN

811.512337 Shipping/13

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3555

HABANA, June 23, 1943.

[Received June 26.]

SIR: I have the honor to refer to the Department's air mail instruction No. 1830 of June 19, 1943 (no file number), transmitting a copy of a letter dated May 26, 1943,⁵⁶ from the Defense Supplies Corporation, regarding its purchase of the 1942 Cuban molasses crop, and instructing the Embassy to bring this letter to the attention of the Cuban Government and to request a waiver of the 2.65 per cent and the 3.60 per cent taxes assessed on the total ocean freight charges on all shipments of molasses made by the Defense Supplies Corporation from Cuba to the United States.

The Department refers in this connection to the Embassy's note No. 834 of November 6, 1942,⁵⁷ as a result of which the Cuban Govern-

⁵⁵ Note No. 2967, not printed.

⁵⁶ Neither printed; the letter of May 26 explained the activities of the Defense Supplies Corporation covering the purchase, storage, and transportation of the 1942-1943 Cuban molasses crop, and the application of the taxes thereon (811.512337 Shipping/11).

⁵⁷ Not printed.

ment issued Decree No. 14 of January 8, 1943 (not No. 140 of January 9, 1943, as mentioned in the Department's instruction No. 1830), exempting sugars and molasses purchased by the Defense Supplies Corporation from payment of the 2.65 per cent gross sales tax on transportation, handling, storage and other charges. This decree afforded the Defense Supplies Corporation a substantial measure of relief from local tax charges and, in fact, the local representative of the Defense Supplies Corporation has assured the Embassy that with the exception of the 1 per cent railroad retirement tax (from which exemption was also requested in the Embassy's above mentioned note No. 834), the Defense Supplies Corporation has been exempted from all Cuban state, provincial or municipal taxes on its sugar and molasses operations in Cuba in accordance with Article XV of the Contract of Purchase of the 1942 sugar crop entered into between the Defense Supplies Corporation and the Cuban Sugar Institute.

With regard to the 1 per cent railroad retirement tax, the railroads have continued their efforts to collect this tax from the Defense Supplies Corporation on railroad freight charges on molasses and refined sugar (raw sugar is not subject to this tax) on the ground that it is not a tax but, in effect, a contribution to the Railroad Retirement Fund. The representative of the Defense Supplies Corporation here tells me, however, that he is not paying this tax and is contesting its assessment. The Embassy proposes, therefore, in accordance with the Department's instructions, to inquire of the Foreign Office what decision has been made on its request for exemption from the 1 per cent railroad retirement tax on the refined sugars and molasses owned by the Defense Supplies Corporation.

With reference to the main purpose of the Defense Supplies Corporation's letter, namely, the request for exemption from the 2.65 per cent and 3.60 per cent taxes on the total ocean freight charges on its molasses shipments to the United States, there appears to be some misunderstanding. These taxes are not assessed on the owners or exporters of the merchandise (in this case the Defense Supplies Corporation), but on the owners or operators of the vessels on which the merchandise is shipped. The Cuban Government has been collecting these taxes from the War Shipping Administration, which has been handling practically all of the Defense Supplies Corporation's molasses and sugars, and the War Shipping Administration may have attempted to recover the amount thereof from the Defense Supplies Corporation.

The Department will recall, however, that pursuant to its instructions, the Embassy has been requesting the Cuban Government to exempt vessels owned by or chartered to the War Shipping Administration from these taxes, and that this matter was last officially brought

to the Cuban Government's attention in the Embassy's note No. 414 of April 20, 1943, of which a copy was submitted to the Department with the Embassy's despatch No. 3459 of June 12, 1943.⁵⁸

In view of the fact that the taxes in question are assessed on and collected from the ocean carriers, and as the Embassy is already endeavoring to obtain exemption therefrom on behalf of the War Shipping Administration, there would appear to be no grounds for further representations in connection therewith on behalf of the Defense Supplies Corporation, and the Embassy would appreciate receiving the Department's views in the matter.

In connection with the foregoing, the Department will doubtless recall that as mentioned in the Embassy's air mail despatch No. 3459 of June 12, the Prime Minister, in discussing this matter with Ambassador Braden on June 4, again pointed out the substantial loss of revenue which would result should the Cuban Government exempt from taxes the freight revenue obtained in Cuba by the War Shipping Administration, and that he urged that the matter not be pressed further. In view of the Prime Minister's comments and of the Cuban Government's obvious reluctance to accede to our repeated requests for exemption from the taxes under reference, the Embassy is not overly sanguine as to the eventual outcome of its representations in the matter.

Respectfully yours,

For the Chargé d'Affaires a. i.:

ALBERT F. NUFER

*Counselor of Embassy for
Economic Affairs*

811.512337 Shipping/16

The Chargé in Cuba (Briggs) to the Secretary of State

No. 3891

HABANA, July 21, 1943.

[Received July 24.]

SIR: I have the honor to refer to the Department's air mail instruction No. 1510 of April 14, 1943 (no file number), in which the Embassy was requested to seek from the Cuban Government a clarification of the concluding paragraph of a communication of the Minister of Finance dated November 11, 1942, enclosed with the Cuban Government's note No. 1125 of November 14, 1942, the contents of which, it was felt, lent themselves to confusion in interpretation.

There is attached a copy of the Embassy's note No. 415 to the Foreign Office, dated April 21, 1943,⁵⁹ in which the paragraph under reference is quoted and the statement made that it presumably is intended to cover both individuals and corporations of American and

⁵⁸ See footnote 53, p. 272.

⁵⁹ Not printed.

other nationality acting as contractors or sub-contractors for the United States Government on defense projects in Cuba. The note also points out that the term "profits or income" may lend itself to confusion in interpretation and inquires what, if any, application the Cuban income tax would have on the groups indicated in the paragraph under reference.

Although this matter has since been repeatedly brought to the attention of the Cuban Government, no definitive reply has been received from the Foreign Office to the Embassy's note No. 415 mentioned above. Inquiries made of the Minister of Finance by the Economic Counselor, however, have elicited the attached reply, dated July 16, 1943,⁶⁰ in which an attempt is made to clarify the phrase "profits or income". Ingeniero Montoulieu's clarification reads, in translation, as follows:

"The phrase 'profits or income' contained in the final paragraph of the communication under reference must be understood to comprise two types of taxes which, in our fiscal legislation, are called taxes on profits [*utilidades*]^{60a} and taxes on income [*renta*],^{60a} and it must not therefore be understood that profits or income are one and the same thing in our fiscal system."

No mention is made in the Minister's letter of the other points raised in the Embassy's note No. 415,⁶¹ but the foregoing apparently indicates that it is the Cuban Government's intention to tax, in accordance with existing fiscal legislation, the "profits" and the "income" obtained from defense projects in Cuba by individuals or corporations acting as contractors or sub-contractors for the United States Government. As the Department is aware, the Cuban "income" tax was established by Decree-Law No. 1 of December 31, 1941, while the Cuban "profits" tax, with such modifications as have since been made therein from time to time, has been in effect since before the days of the Republic. Income and profits tax rates were substantially modified by the Cuban tax Law (No. 7) of April 5, 1943, of which a copy and translation were submitted to the Department with the Embassy's despatch No. 2734 of April 10, 1943⁶² (file No. 851.2).

The Embassy would appreciate receiving an expression of the Department's opinion as to whether it considers the information

⁶⁰ Not printed; it was addressed to Mr. Nufer by the Minister of the Treasury, Eduardo I. Montoulieu, who succeeded Irisarri in that position in May 1943.

^{60a} Brackets appear in the original.

⁶¹ Note No. 415 further called to the attention of the Minister of State, Emeterio S. Santovenia, the letter of November 11, 1942, addressed to his predecessor, José A. Martínez-Viademonte, by the Minister of Finance, and reminded Santovenia that Irisarri, in that letter, had "expressed the opinion that consideration should be given to requests for tax exemption received from official agencies of the United States Government." (811.512337 Shipping/16)

⁶² Not printed.

furnished by the Minister of Finance adequate or whether a further clarification is considered necessary.

Respectfully yours,

For the Chargé d'Affaires a. i.:

ALBERT F. NUFER

*Counselor of Embassy for
Economic Affairs*

837.61351/4058

The Secretary of State to the Ambassador in Cuba (Braden)

No. 2001

WASHINGTON, July 27, 1943.

SIR: Reference is made to the Department's Airgram no. A-1596, June 22, 1943, 5:25 p. m.⁶³ concerning the applicability of Article III of Law No. 7 of April 5, 1943, to payments remaining to be made by Defense Supplies Corporation on 1942 crop molasses.

The Department transmits copies of communications dated July 14 and 19, 1943 from Defense Supplies Corporation,⁶⁴ requesting assistance in obtaining from the Cuban Government exemption from the taxes of 15/100 of one per cent and of 2 per cent on the exportation of funds from Cuba. A copy of a letter of July 17 from Metals Reserve Company⁶⁵ referring to the application of the same Cuban taxes to its activities is also enclosed.

The Department considers that the requests of Defense Supplies Corporation and of Metals Reserve Company merit favorable consideration. Accordingly, you are requested to present the requests opportunistically to the appropriate Cuban officials. The Department will appreciate receiving reports of developments.

Very truly yours,

For the Secretary of State:

A. A. BERLE, JR.

811.512337 Shipping/17

The Ambassador in Cuba (Braden) to the Secretary of State

No. 4480

HABANA, September 13, 1943.

[Received September 17.]

SIR: I have the honor to refer to the Department's instruction No. 2119 of August 19, 1943⁶⁵ (file No. 811.512337 Shipping/16), with regard to the requested exemption from taxation in Cuba of the earnings of vessels either owned by or chartered to the War Shipping

⁶³ Not printed; it authorized the Embassy to call to Cuba's attention the concern of the Defense Supplies Corporation regarding Cuban interference through taxation with the payment of about \$1,200,000 remaining to be made on 1942 crop molasses through banks in Habana (837.61351/4047a).

⁶⁴ Neither printed.

⁶⁵ Not printed.

Administration and in which the Embassy's attention is called to the fact that the Department has never been advised of the results, if any, of the calculations which, according to the Foreign Office's note No. 1124 of November 14, 1942, were being made in order to ascertain to what extent Cuba's economy would be prejudiced by the suppression of these taxes. The Department requested the Embassy again to approach the Foreign Office, making reference to its note No. 1124 (not No. 1125, as stated by the Department) of November 14, 1942, and requesting to be informed of the results of the calculations therein referred to.

In accordance with the Department's instructions, note No. 894 of August 21, 1943,⁶⁷ of which a copy is enclosed, was addressed to the Foreign Office. There are likewise attached a copy and translation of the Foreign Office's note No. 2676 of September 7, 1943,⁶⁷ in reply thereto, which states that the matter is still being studied by the appropriate officials of the Cuban Government and that the Embassy will be informed as soon as a definitive decision has been reached.⁶⁸

I shall continue to press the Cuban Government for an early favorable decision in this matter.

Respectfully yours,

For the Ambassador:
ALBERT F. NUFER
*Counselor of Embassy for
Economic Affairs*

837.512/702

The Ambassador in Cuba (Braden) to the Secretary of State

No. 4855

HABANA, October 21, 1943.
[Received October 26.]

SIR: I have the honor to refer to the exchange of notes between the Cuban Government and the Embassy with reference to the granting to the Defense Supplies Corporation and Metals Reserve Company certain tax exemptions which the Cuban Government had provided on behalf of the Commodity Credit Corporation.

The Department will recall that in the Embassy's despatch No. 4791 of October 14, 1943,⁶⁷ it was stated that the Ministry of State's Note No. 1729 of October 2, 1943,⁶⁷ informed the Embassy that the tax exemptions in question had been granted to the Defense Supplies Corporation by decree but that the final resolution of the request for tax exemption on behalf of the Metals Reserve Company had not yet been completed as the Government wished to make a further study of the matter. I am now pleased to report to the Department that

⁶⁷ Not printed.

⁶⁸ Such a decision was not reached in 1943.

Decree No. 2971 of October 15, published in *Official Gazette* No. 583 of October 19, 1943, grants to the Metals Reserve Company the tax exemptions requested by the Embassy in its Note No. 965 of September 8, 1943,⁶⁹ to the Ministry of State.

There are attached a copy and translation ⁶⁹ of Decree No. 2971.

In order that there be no interruption or delay in the movement of vessels carrying ore belonging to the Metals Reserve Company Agency, which ore is covered by the tax exemptions provided for in Decree No. 2971, the Embassy discussed with the Director General of Customs the desirability of his office promptly transmitting telegrams to the various customs authorities from which shipments of ore are customarily made, informing their agencies that ore shipments of the Metals Reserve Company Agency are exempt from taxation. The Director General of Customs agreed to transmit these telegrams without delay and stated that the appropriate customs circular notifying all of the customs authorities of the Island would be issued immediately.

It will be noted that, in addition to the tax exemptions requested by the Embassy in its abovementioned Note No. 965, Decree No. 2971 also exempts the Metals Reserve Company from the requirement of registering in the taxpayers' registers maintained by the State, the Province or Municipality or any other public registers in which commercial or industrial entities operating in Cuba for a profit are required to register.

Respectfully yours,

For the Ambassador:

CHARLES H. DUCOTÉ

Commercial Attaché

⁶⁹ Not printed.

DOMINICAN REPUBLIC

AGREEMENT BETWEEN THE UNITED STATES AND THE DOMINICAN REPUBLIC RESPECTING A NAVAL MISSION

[For text of the agreement, signed at Washington January 25, 1943, and effective as of that date, see Department of State Executive Agreement Series No. 312, or 57 Stat. (pt. 2) 910.]

AGREEMENT BETWEEN THE UNITED STATES AND THE DOMINICAN REPUBLIC APPROVING A MEMORANDUM OF UNDERSTANDING DATED MAY 20, 1943, RESPECTING THE PURCHASE BY THE UNITED STATES OF EXPORTABLE SURPLUSES OF DOMINICAN RICE, CORN, AND PEANUT MEAL

[For text of the agreement, effected by exchange of notes, signed at Ciudad Trujillo June 10, 1943, see Department of State Executive Agreement Series No. 350, or 57 Stat. (pt. 2) 1142.]

INTEREST OF THE UNITED STATES IN THE DISPOSITION OF AXIS PROPERTIES IN THE DOMINICAN REPUBLIC

740.00112A European War, 1939/22491

The Secretary of State to the Minister in the Dominican Republic
(Warren)

No. 310

WASHINGTON, January 27, 1943.

The Secretary of State refers to the Legation's airgram no. A-262 of December 22, 1942¹ which stated, in reply to the Department's inquiry concerning the Proclaimed List firm Compañía Comercial, C. por A.,² that the Dominican Government has taken no action toward subjecting the property of enemy nationals to forced sale or vesting, and that Dominican officials have stated that such action is unnecessary and inadvisable. Reference in this connection is also made to the Legation's despatch no. 416 of January 2, 1943,¹ which stated that under present laws and decrees the Dominican Government has the power to vest the property of an enemy national or to subject it to forced sale.

¹ Not printed.

² Telegram No. 392, December 14, 1942, to the Minister in the Dominican Republic, not printed.

While the Department concurred that the shortage of Dominican rice milling facilities should be the primary consideration in deciding whether to approve the measures necessary to enable the rice mill of the *Compañía Comercial* to operate for the processing of the current rice crop, it believes that approval of such measures under existing arrangements places this Government in the unsatisfactory position of agreeing that materials from this country shall assist or permit a firm's operations, the profits from which will eventually be received in substantial part by undesirable persons.

Moreover, in view of the efforts being made to increase the production of rice in the Dominican Republic, it appears entirely possible that the best interests of the Dominican economy will require the employment of the facilities of the *Compañía Comercial* rice mill during the next rice harvest in June, and that this Government will again be requested to approve emergency measures which will include permission for United States materials to go forward to enable the mill to operate.

In view of these considerations, the Department believes that it is strongly desirable to find a permanent and satisfactory solution at the present time to the problem presented by the continuing Nottebohm-Grossart financial interests in the *Compañía Comercial* and the continued presence therein of Friedrich Rudolf Grossart.³ While not perhaps of such importance as the rice mill, the remaining property of the *Compañía Comercial* is of some value to the Dominican economy and a solution embracing all the assets of the *Compañía* would, therefore, appear to be advantageous to the Dominican Government.

In its despatch no. 1087 of April 27, 1942,⁴ the Legation outlined a plan providing for the vesting or forced sale of the Nottebohm-Grossart interests in the firm and the deletion of the *Compañía Comercial*'s name from the Proclaimed List. In describing its advantages, the despatch stated "the adoption of this plan would be beneficial since it would entirely eliminate from the firm the positively German elements. At the same time it would place control over the commercial activities of Rafael Lembeke, whose international political attitude is not well defined, and it would enable other members of the Lembeke family, against whom the Legation knows nothing prejudicial, to maintain their holdings in the *Compañía Comercial* without further loss due to its inclusion on the Proclaimed List. In addition the United States and British Governments would be removed from the paradoxical position of attempting to restrict the production of food products on land owned by the *Compañía Comercial*, when both are

³ President of the *Compañía Comercial*.

⁴ Not printed.

interested in the production of food crops. Furthermore, they would be removed from the position of attempting to restrict production on this land when they cannot successfully do so, thereby weakening the prestige and general effect of the Proclaimed List". These considerations are still applicable.

The Department will appreciate receiving a report as promptly as possible concerning the reasons for the statement of the Dominican officials that the vesting or forced sale of enemy interests in a case such as this is undesirable. The report should include a statement concerning each of the following points: (1) administrative difficulties which may be believed to lie in the way of satisfactory vesting; (2) the availability of private capital owned by desirable persons for the purchase of the Nottebohm-Grossart interests by forced sale; (3) the availability of a manager capable of replacing Friedrich Rudolf Grossart.

740.00112A European War, 1939/29862 : Airgram

The Minister in the Dominican Republic (Warren) to the Secretary of State

CIUDAD TRUJILLO, April 28, 1943—8 a. m.

[Received April 30—noon.]

A-248. Department's instruction no. 310, January 27, 1943. After receipt of above-mentioned instruction, informal conversations were held with Dominican Government officials regarding possible action with regard to vesting or forced sale of enemy interests. On February 19, an informal memorandum was given to the Secretary of State for the Presidency,⁶ pointing out the possibilities of vesting or forced sale of enemy enterprises on the part of the Dominican Government. No written answer has as yet been received to the memorandum, although conversations have taken place.⁷

Responsible government officials give their objections to vesting or forced sale, particularly as applying to the Compañía Comercial, as follows:

The Dominican Government has not had experience in vesting, preferring instead to use the procedure of intervention. It was pointed out that, in actual practice, the interventor exercises the same authority and control, with the exception of the power to dispose of the enterprise, that he would have if the property were vested in him or in the Government. The Dominican Government does not wish to assume ownership of a firm now on the Proclaimed List and states

⁶ Rafael Paíno Pichardo.

⁷ No reference to the memorandum or later report by the Embassy on the subject of this airgram has been found in Department files.

that there are no private parties with available capital who are interested in purchase of the Nottebohm-Grossart interests. They therefore believe that the intervention procedure offers all the advantages of vesting and is in addition a measure with which they are well acquainted. Only 680 of the 1500 shares in the Cía. Comercial are held by German interests and the Dominican Government believes that the present control affecting the entire company is preferable to one affecting only a minority of the shares.

Rafael Lembeke (who is a National Deputy) has stated that Grossart would be glad to relinquish his position as president of the company and it is probable that the former would assume that place. Since active management is under the supervision of interventor, however, Grossart's replacement is considered by Dominican authorities as necessary only if vesting or forced sale should take place. There are considerations of local politics, neither anti-American nor pro-Nazi, that require careful handling of this particular situation.

WARREN

**AGREEMENT BETWEEN THE UNITED STATES AND THE DOMINICAN
REPUBLIC RESPECTING A HEALTH AND SANITATION PROGRAM**

[For text of the agreement, effected by exchange of notes, signed at Ciudad Trujillo June 19 and July 7, 1943, see Department of State Executive Agreement Series No. 346, or 57 Stat. (pt. 2) 1115.]

ECUADOR

AGREEMENT BETWEEN THE UNITED STATES AND ECUADOR DETAILING A MILITARY OFFICER FROM THE UNITED STATES TO SERVE AS THE TECHNICAL DIRECTOR OF THE ELOY ALFARO MILITARY COLLEGE OF ECUADOR, SIGNED SEPTEMBER 13, 1943

[For text of the agreement, signed at Washington, see Department of State Executive Agreement Series No. 338, or 57 Stat. (pt. 2) 1056.]

DISCUSSIONS AND UNDERSTANDINGS CONCERNING THE OBTAINING OF STRATEGIC MATERIALS FROM ECUADOR AND FINANCIAL ASSISTANCE TO ECUADOR¹

811.20 Defense (M)/11094 : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, January 7, 1943—9 p. m.

18. Refer Embassy's 1062, December 22, last paragraph; Department's 947, December 28,² fourth paragraph. It has been agreed between the Department, Board of Economic Warfare and Defense Supplies Corporation that the proposed contract between Defense Supplies and the Ecuadoran Development Corporation³ should take the form of a letter-agreement similar in form to that between the Ecuadoran Development Corporation and Rubber Reserve.⁴ A draft of this letter-agreement has been worked out by the interested Government agencies, and the Department has indicated its approval. It is being taken to Quito by Mr. Clark Byse of the BEW, who took an active part in drawing it up. Mr. Byse left by plane Wednesday afternoon, January 6, for Quito.

The Department agreed to the proposal from BEW that Mr. Byse go to Quito at this time, due to our feeling that he could be of help to the Embassy in the negotiations for the over-all agreement and for

¹For previous correspondence, see sections entitled "Negotiation and application of an agreement concerning the production and export of Ecuadoran rubber," *Foreign Relations*, 1942, vol. vi, pp. 396 ff., and "Program for economic cooperation between the United States and Ecuador," *ibid.*, pp. 383 ff.

²Neither printed.

³The Defense Supplies Corporation operated under the Department of Commerce. The Ecuadoran Development Corporation was a government instrumentality of Ecuador.

⁴Not printed; for the terms of the rubber agreement, see telegram No. 256, April 20, 1942, *Foreign Relations*, 1942, vol. vi, p. 400.

the agreement between Supplies and the Development Corporation. While he has been authorized by Defense Supplies to approve such amendments to the above-mentioned documents as may be necessary, such authorization, of course, does not give him authority to negotiate. Defense Supplies Corporation understands fully the Department's position that negotiations are in the hands of the Embassy. Byse's role is limited to that of consultant to the Embassy. This statement of his function supersedes any he may have received from BEW or Defense Supplies. Because of Byse's experience, however, you will probably find that he can be of assistance in working out solutions to pending questions.

Mr. Samuel Miller⁵ is hereby authorized by Defense Supplies Corporation to sign on its behalf the proposed letter-agreement between Defense Supplies and the Ecuadoran Development Corporation. So far as Defense Supplies is concerned, Mr. Byse is authorized by Defense Supplies to approve such amendments as may be necessary in the proposed letter-agreement and in the proposed agreement with the Ecuadoran Government.

Please acquaint Mr. Miller and Mr. Byse with such parts of this telegram as you think necessary.

HULL

811.20 Defense (M)/11384 : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, January 19, 1943—10 p. m.

41. For Miller from Paul,⁶ Board of Economic Warfare. Embassy's A-3, January 3, 12:05 p. m.⁷ Because of the pending negotiations with Ecuador we have stopped making contracts for future purchases of cinchona bark from that country. However, we would like to accept offers of cinchona bark or quinine alkaloids for immediate shipment unless to do so would jeopardize negotiations.

The only large contract for future delivery which we have entered into covering purchase of cinchona bark from Ecuador was one for 100 tons placed with Miguel Heredia Crespo through the Consumers Import Corporation of New York. We have been informed that approximately 20 tons of this 100 tons has already been shipped and that additional shipments will be made regularly. [Paul.]

HULL

⁵ Representative of the Defense Supplies Corporation and the Board of Economic Warfare in Ecuador.

⁶ Arthur Paul, Chief of the Office of Imports of the Board of Economic Warfare.

⁷ Not printed; it indicated that the Defense Supplies Corporation was negotiating quinine contracts with individual producers.

822.51/1017 : Telegram

The Chargé in Ecuador (Nester) to the Secretary of State

QUITO, February 3, 1943—5 p. m.

[Received midnight.]

96. For Rubber Reserve from Lowry.⁸ Minister of Finance Illingworth is proposing to use funds from premium payments⁹ in connection with construction of two roads into Ecuadoran Oriente.

The first is from Cuenca to Méndez which according to estimate of local engineers will require 10 million sucres and 2 years to complete. The second is from Ibarro to Aguarico in northern Oriente. Practically nothing is known about this route or about the amount of rubber in the area. Norton¹⁰ reports some rubber around Méndez and we expect to begin immediately to improve the existing trail from Cuenca to facilitate exploitation. Cost of trail work will be about sucres 75,000. The Minister proposes to apply for a loan from Export-Import Bank to build these roads and to use premium payments to pay interest on and amortize the loans. He is also considering the same arrangement for road construction work in Santo Domingo area. Although we doubt that the construction of roads into the Oriente could be completed in time to be of value to the war program, the Ecuadoran Government for political and military reasons appears to be quite strongly in favor of this plan. The Minister asks that Reserve arrange to have American engineers sent down to contract with the Ecuadoran Government to do this road work. We have no doubt that if work is to be completed within a reasonable time a good deal of equipment from the United States will be necessary also.

The Minister requests that you send a reply by cable. [Lowry.]

NESTER

822.51/1017 : Telegram

The Secretary of State to the Chargé in Ecuador (Nester)

WASHINGTON, February 9, 1943—11 p. m.

94. Embassy's 96, February 3. On the basis of Lowry's description, it is not apparent to the Department that the road construction proposed by the Minister of Finance has direct connection with rubber production, and hence it appears that premiums would not be expended "in the development of the production of wild rubber" as

⁸ Walker W. Lowry, representative of the Rubber Development Corporation in Ecuador.

⁹ With regard to the nature of these payments, see telegram No. 423, May 13, from the Chargé in Ecuador, p. 288.

¹⁰ Presumably E. Hope Norton, President of the Ecuadoran Development Corporation.

provided in the rubber agreement. If that is the case, this Government could not agree to the proposed use of the premium payments. In the absence of forceful reasons for the construction of these roads, it seems clear that the engineers requested by the Minister could not be made available and that in any event it is probable that it would be impossible to obtain the necessary equipment.

HULL

811.20 Defense (M)/12086 : Telegram

The Chargé in Ecuador (Nester) to the Secretary of State

QUITO, February 16, 1943—7 p. m.
[Received 12:33 p. m.]

134. The provisions of the proposed cinchona agreement¹¹ have now been approved by both parties. In order to reach the agreement a number of minor changes had to be accepted but as none of these altered the basic terms or intent of the agreement they were accepted in view of the urgency of the matter and to avoid the further delays which would have been involved in referring the detailed changes to Washington. Cossé¹² and Miller participated in the final negotiations and concur in the changes made. It is believed that the decree authorizing the agreement and signature of the agreement will be effected during the present week. A full report indicating changes and explanations of these is being forwarded by air mail.

NESTER

811.20 Defense (M) Ecuador/91f : Telegram

The Secretary of State to the Ambassador in Ecuador (Long)

WASHINGTON, March 30, 1943—6 p. m.

241. Since the arrival of Miller in Washington two meetings have been held at the BEW to discuss remedies for the difficulties which have arisen in the balsa purchase program. These meetings were attended by representatives of the British Raw Materials Mission, and the Department in addition to BEW officials. Jackling¹³ also attended.

Although certain details require further study the plan that has been generally agreed to is as follows:

¹¹ According to the terms of the agreement of February 23, 1943 (not printed) the United States obtained preclusive privileges to the purchase of cinchona and its products, less an amount for Ecuador's needs, at stipulated prices.

¹² Charles K. Cossé of the American Quinine Company, sent to Ecuador under the terms of a joint contract between the Board of Economic Warfare and the Defense Supplies Corporation.

¹³ Presumably Roger William Jackling, Second Secretary of the British Embassy.

- (1) The BEW through Defense Supplies Corporation will purchase lumber directly from the producers.
- (2) The six agents will continue to function as before.
- (3) A premium will be offered for aero-grade lumber by Defense Supplies Corporation.
- (4) BEW through Defense Supplies Corporation will undertake to purchase equipment and parts, such as saw teeth and furnish them to the independent mills.

The revised program is designed to meet the primary objection of the independent producers by providing them with a steady market for lumber at fair prices. The actual schedule of prices to be paid is one of the details still to be worked out. It is hoped, however, that the program will be ready to be put into effect by April 15.

You will be informed as soon as there are any further developments.

HULL

822.6176/31 : Telegram

The Chargé in Ecuador (Nester) to the Secretary of State

QUITO, May 13, 1943—7 p. m.

[Received May 14—5:01 p. m.]

423. The President ^{13a} today summoned me requesting also the presence of Messrs. Lowry and Tewksbury.¹⁴ He stated that he was entirely dissatisfied with the working of certain features of the rubber agreement and stated that Ecuador has faithfully complied with all provisions of the agreement but that to be very frank he did not feel the U. S. had met its obligations. He pointed out that in discussions with Ecuadoreans he defended the U. S. but there are three points concerning which he was dissatisfied: (1) Tires have not been shipped to Ecuador as provided in the agreement. No tires have been received from Brazil as yet covering the quota for the fourth quarter 1942 and first quarter 1943. (2) The agreement provides for the payment of premiums to the Ecuadorean Government for use in the procurement and development of wild rubber. Although a specific request was made as far back as December for the utilization of these funds for building roads into rubber producing sections of the Oriente it has not been possible to obtain authorization for this. (3) He also stated that he was dissatisfied with the way the \$500,000 development fund had been utilized. However, as the conversation developed this was not again mentioned and apparently this is not a very serious problem at the moment. Presumably such a dissatisfaction as exists is due to the fact that in nearly 10 months very little of this fund has actually been spent.

^{13a} Carlos A. Arroyo del Río.

¹⁴ Howard H. Tewksbury, Commercial Attaché.

After a brief discussion of difficulties which have been encountered in connection with supplying tires the President stated that one serious objection to receiving tires from Brazil was that these tires cost Ecuador approximately 25% more than tires from the U. S. Although he dropped the discussion of tires after explanations as to various difficulties which have been encountered, the question of receiving tires is of paramount importance and is certain to arise again. Kindly inform the Embassy in detail as to the status of shipments from Brazil and as to shipment of the second and third emergency stock piles.

He expressed his great dissatisfaction at not having definite authorization to use the premium payments for the construction of the road from Cuenca to Méndez. (Reference Embassy's telegram No. 96, February 3, 5 p. m. and 189, March 2 [3], 9 p. m.; and Department's telegram No. 335, April 29, midnight.¹⁵) It was explained that after discussions between Lowry and the Minister of Finance it had been decided to request authorization up to \$30,000 for an engineering survey of the road and that authority had recently been received from Washington to spend this amount.

The President explained that the premium payments were made to the Government of Ecuador to spend for projects for the development of rubber. This project was of the character named and he insisted that authority be granted immediately to spend the premium payments on this work. He emphasized the fact that when Congress meets early in August one of the first questions to be raised will be as to the uses which have been made of the premium payments. Apparently he feels that the political pressure for the utilization of this fund on the road mentioned will be irresistible.

The President stated that although the contract has been in force since last July the announcement of authorization to spend \$30,000 of Ecuador's money is the first indication he has had of approval to utilize these funds. He stated that it would be better not to have the funds than to receive similar dribblet authorizations. It was explained that apparently there had been a misunderstanding since Mr. Lowry was of the impression that the Minister of Finance merely desired authorization for the survey in connection with the Cuenca-Méndez road. He did not understand that approval for expenditure of the entire premium payments on the Cuenca-Méndez road was essential.

The President ended by saying that if the Rubber Development Corporation ¹⁶ did not authorize the expenditure of the premium pay-

¹⁵ Telegrams No. 189 and No. 335 not printed.

¹⁶ The Rubber Reserve Company was formally superseded on February 23, 1943, by the Rubber Development Corporation.

ments for the construction of this road prior to June 1 he would terminate the rubber agreement.

I consider it of the utmost importance that authorization be granted immediately for spending premium payments made to date on the Cuenca-Méndez highway project. Lowry concurs.

NESTER

822.6176/31

The Secretary of State to the Chargé in Ecuador (Nester)

WASHINGTON, May 18, 1943—9 p. m.

379. Embassy's 423, May 13. While under the agreement Rubber Development has no specific right to approve or disapprove application of premium payments, it would have a right to object if the funds are expended other than "in the development of the production of wild rubber" in Ecuador. In order to avoid disagreements it seems desirable to have Rubber Development concur in advance in the making of any expenditures of premium payments. Because the payments are large compared to those in other countries and the opportunities for spending them in increasing rubber production in Ecuador are limited, Rubber Development is not disposed to claim a narrow or strict interpretation of the provisions of the agreement. Accordingly, while the direct connection between the construction of the Cuenca-Méndez road and the production of rubber may be open to question and hence Rubber Development might be justified in objecting to the proposed expenditure, it has decided not to do so.

This decision has been made subject to two conditions: (1) that it shall be clearly understood by the Ecuadoran Government that this Government can give no undertaking to assure availability of requisite machinery and equipment or engineering or other personnel and (2) construction of road will not be permitted by Ecuadoran Government to draw labor which would otherwise engage in rubber production.

Rubber Development's position has not been influenced by the statement of the President as to termination of the agreement. It has already agreed to expenditure of \$30,000 for a survey of the road and had not understood that anything further was contemplated pending the outcome of the survey.

Any dissatisfaction with respect to use of the \$500,000 development fund seems unjustified. Approval has been given by Rubber Development for expenditure from the fund of over \$170,000, and so far as is known here few, if any, proposals chargeable against the fund have been turned down.

HULL

811.20 Defense (M) Ecuador/169 : Telegram

The Ambassador in Ecuador (Scotten) to the Secretary of State

QUITO, June 17, 1943—5 p. m.

[Received 10:22 p. m.]

528. Reference Department's 416, May 29, 9 p. m.¹⁷ After July 1 the Ecuadoran Development Corporation will commence acting as sole purchaser of cinchona bark. Authority is requested for Fomento¹⁸ to purchase for its own account any bark of less than 2% rejected by Defense Supplies,¹⁹ such bark to be sold to Argentina or other foreign buyer. This would make complete control effective. The agreement provides for free sale of bark not purchased in behalf of Defense Supplies.

SCOTTEN

822.61/144a

The Chief of the Division of the American Republics (Bonsal) to the Ambassador in Ecuador (Scotten)

WASHINGTON, June 28, 1943.

DEAR BOB: Vicente Illingworth has laid before me a problem of some delicacy and difficulty concerning which we would all like your advice. According to Illingworth, President Arroyo is convinced that on the occasion of his visit to Washington^{19a} he was promised by Mr. Welles²⁰ a \$10,000,000 credit for agricultural development in Ecuador, the said credit to be over and above any existing commitments. Vicente states that the President has gone pretty far out on a limb in discussing this more or less publicly since his return home.

I have gone into the matter very carefully. The fact is that neither Mr. Welles nor anyone else discussed agricultural development in specific terms with Arroyo. There was no mention whatever of any additional credit. Of course, Mr. Welles and others expressed sympathetic interest in Ecuadoran agricultural problems. It was suggested that should any projects be developed in regard to this subject they might be processed through the Ecuadoran Development Corporation which at that time appeared to have ample uncommitted funds.

We will not at this time extend a further \$10,000,000 credit to the Ecuadoran Development Corporation. However, I would like to have your views as to the local situation and as to the President's position in order that we may decide what, if anything, should be

¹⁷ Not printed.

¹⁸ Corporación Ecuatoriana de Fomento.

¹⁹ United States representatives were authorized to purchase, at 10 cents a pound, cinchona having alkaloids of 2% or above.

^{19a} President Arroyo visited Washington November 23-27, 1942.

²⁰ Sumner Welles, Under Secretary of State.

done. It seems to me, quite frankly, until there is developed some sort of intelligent program for the general development of Ecuadoran agriculture with particular reference to production and distribution for local consumption the mere granting of credit would not be desirable.

With warm regards,

Sincerely yours,

P[HILIP] W. B[ONSAL]

822.61/145

*The Ambassador in Ecuador (Scotten) to the Chief of the Division of
the American Republics (Bonsal)*

QUITO, July 3, 1943.

[Received July 10.]

DEAR PHIL: In reply to your letter of June 28, which has just arrived, let me refer you to my letter of July 1,²¹ addressed to Larry Duggan,²² on the same subject. Before receipt of your letter, Tewksbury was preparing a despatch (No. 184 of July 3)²³ giving the newspaper comment which has occurred upon this matter from time to time. Although we are sending the despatch up in the regular way, a copy is enclosed with this letter for your information.

Let me say, in the first place, Phil, that I can see no necessity for our Government's extending a \$10,000,000 credit either to the Ecuadoran Development Corporation, or to the Ecuadoran Government as such in order to procure the good will of Ecuador.

Secondly, from an economic standpoint, the banks of this country are so loaded down with a surplus of dollars that I personally share the general view here among thinking people that further extensions of credit would be harmful rather than helpful to Ecuador. This country can finance its own present crop development program with its own funds and, in fact, has already taken steps to do so, as you will see from the law reported in despatch No. 164 of June 30,²³ which provides that commercial banks are required to invest 15% of their portfolio of investments in agricultural loans or to rediscount paper of the Mortgage Bank of Ecuador, which represents loans for agricultural purposes.

From the political point of view, I do not, frankly, believe that President Arroyo has gone very far out on a limb in this matter. The only discussions about it had been those in the press which are enclosed herewith.²⁴ You will notice that these articles do not refer to it as government credit which has been promised by Washington, but

²¹ Not found in Department files.

²² Laurence Duggan, Adviser on Political Relations.

²³ Not printed.

²⁴ Not reprinted.

rather as an extension of the credit of the Development Corporation. I cannot see that the refusal of our Government to extend further credit would be in any way embarrassing to the President. In fact, as regards the press angle, you will see from the enclosed leading editorial in *El Día* of yesterday, regarding the reported \$1,200,000 road loan, that the attitude which is taken in at least one section of the press is that no more dollars are needed in this country.

The President has not mentioned this subject to me in any way whatsoever and, quite frankly, when the first article in the press appeared about the possibility of a further \$10,000,000 credit, both myself and the rest of the staff were completely in a fog as to what it referred to. Of course, if the President's request is turned down, I imagine he will be somewhat miffed, but I certainly do not think that his political prestige here . . . will be in any way impaired.

Enclosed is a memorandum of a pertinent conversation on July 1²⁵ with Plauché, the Acting Manager of the Ecuadoran Development Corporation.

This is a rather hastily written letter, Phil, as I feel that you want me to answer your own letter right away. However, perhaps the general atmosphere which it conveys will be helpful to you.

Sincerely yours,

R. M. SCOTTEN

S22.617/40

The Ambassador in Ecuador (Scotten) to the Under Secretary of State (Welles)

QUITO, July 28, 1943.

[Received August 11.]

DEAR SUMNER: I have sent up in the normal way my despatch No. 272 of July 21,²⁵ setting forth the extreme irritation evidenced by Arroyo regarding the apparent reluctance of the Rubber Development Corporation to give his Government a free hand in using the premium payments on rubber.

It is my understanding that the purpose back of these premium payments was not only to expedite the extraction of rubber but to create a certain amount of good will. As you will see from my despatch and the previous correspondence about events before I arrived here, the method of handling these premium payments seems to have created everything but good will.

Lowry, the local Rubber Development man, is entirely cooperative and would like to have this matter handled in accordance with Arroyo's wishes. There is no trouble on that score, therefore, and it is

²⁵ Not printed.

really a Washington problem. Is there anything you can do about it? ²⁸

Very sincerely yours,

R. M. SCOTTEN

822.6176/37 : Telegram

The Secretary of State to the Ambassador in Ecuador (Scotten)

WASHINGTON, August 4, 1943—8 p. m.

595. Embassy's despatch 272, July 21,²⁹ Lowry's letter to Rubber Development of July 22.³⁰ As outlined in Department's telegram 379, May 18, it is understood here that this Government has no right under the rubber agreement with Ecuador to give prior approval or disapproval of expenditures of premium funds. However, under agreement with other countries containing similar provisions it has been considered desirable for the governments of the producing country and of this country to consult in advance in order to obviate any disagreement as to whether any proposed expenditure is within the terms of the agreement and hence not subject to objection from us. Since Illingworth while Minister of Finance had on several occasions consulted with Rubber Development representatives on expenditures of premium funds it was assumed that the Ecuadoran Government wished to follow a similar course, which appears obviously to be designed to promote harmony in the execution of the rubber agreement. Projects which may be undertaken are likely to require machinery and equipment and personnel from this country, and prior consultation with respect to proposed expenditures will elicit information as to their availability. Moreover, in view of their familiarity with the rubber program in Ecuador as a whole, Rubber Development representatives should be particularly fitted to advise as to the contribution which proposed projects may make to rubber production. If, however, it is the wish of the Ecuadoran Government that these funds should be spent without prior reference to the Embassy or the Rubber Development Corporation, naturally this Government will interpose no objection.

It is believed by Rubber Development that Illingworth may not have understood fully the point of view of Rubber Development as outlined in his conversations with its officers during his visit. Their inquiries were intended to be directed solely to the questions of the relation of the proposed Ibarra-Succumbios road to rubber produc-

²⁸ In a letter of August 11 the Under Secretary of State informed the Ambassador that telegram No. 595, August 4, *infra*, answered this letter in general.

²⁹ Not printed.

³⁰ Presumably this refers to telegram No. 648, July 22, 1 p. m., in which Lowry requested information on negotiations by Illingworth on the premium fund (822.51/1027).

tion, of the effect of the road construction on the availability of labor for actual rubber tapping, and of the necessity for materials, equipment and personnel from this country. Such inquiries are natural under the system of prior consultation which Rubber Development understood was being followed. Mr. Illingworth's original proposal contemplated that the surveying and construction would be undertaken by an United States firm, and this did not originate with Rubber Development. The Export-Import Bank came into the picture only because of Illingworth's request that, after construction of the two proposed roads had been mutually agreed upon, Rubber Development should agree to permit the pledge of premium funds paid and to be paid to guarantee the interest on and amortization of a loan from the Export-Import Bank to finance the cost of construction of the Cuenca-Méndez and Ibarra-Succumbios roads.

It is suggested that you confer with the President along the lines of the foregoing, with which Rubber Development concurs. Please keep Lowry fully informed.

HULL

811.20 Defense (M) Ecuador/301

The Ambassador in Ecuador (Scotten) to the Secretary of State

No. 462

QUITO, September 16, 1943.

[Received September 24.]

SIR: With reference to the Embassy's telegram No. 814 of September 16, 10:00 a. m.,³¹ from Rainey to Scheuer, O.E.W.,³² I have the honor to report that President Arroyo del Rio called me on Monday, September 13 and requested that I come to his office to discuss questions which have arisen concerning the Quinine Agreement. When I arrived at his office I found Mr. Kinnear of the Ecuadoran Development Corporation,³³ Senator Miguel Heredia Crespo³⁴ and his manager, Mr. Ariziga.

The President was in a very belligerent mood and he made it perfectly clear that he was thoroughly dissatisfied with the manner in which provisions of the Quinine Agreement were being carried out. He stated that if the Defense Supplies could not comply with the provisions he felt that the Agreement should be canceled and Ecuadoran producers be free to sell where they saw fit.

The President then proceeded to list the principal shortcomings with reference to the Quinine Agreement.

³¹ Not printed.

³² Froelich Rainey and Sidney Scheuer were officials of the Office of Economic Warfare, which superseded the Board of Economic Warfare.

³³ Edwin Kinnear, Manager of the Ecuadoran Development Corporation.

³⁴ See telegram No. 41, January 19, p. 285.

1. He pointed out that paragraph 1 (*c*) states "If Supplies should not wish to purchase this type of bark, the seller is authorized to dispose of it freely". He explained that Senator Heredia had offered a large quantity of cinchona bark to the Development Corporation but that since the analysis showed less than two per cent the bark had been rejected. He also stated that the Corporation had refused to release the bark in order that Mr. [Heredia?] Crespo might be free to dispose of it as he saw fit. He also indicated that Mr. Crespo had received offers from Argentina and that the action of the Development Corporation was seriously prejudicing the very substantial investment which Senator Heredia had made.

2. The President then called attention to paragraph 2 (*a*) (*vii*) which provides for the establishment within six months of proper facilities for analyzing the quinine and alkaloid content of cinchona bark and for making full and final payment for all bark thus analyzed. He pointed out that it was more than six months since the Agreement was signed and that thus far this provision had not been met.

3. He then referred to paragraph A which provides for the establishment of an efficient processing plant and said that so far as he knew nothing whatever had been done in this connection.

I was not sufficiently familiar with the details of the Quinine program to enter into the discussion of specific points and informed the President to this effect and stated that if there has been a failure to conform to the terms of the Agreement, I would do everything possible to see that such deficiencies were corrected. Mr. Kinnear attempted to clarify one or two points which the President brought up but he was in such a state of annoyance that it was utterly impossible for Mr. Kinnear to make any explanation whatever.

Following the meeting with the President, I held several conferences with Messrs. Kinnear, Rainey and Tewksbury regarding the provisions of the Agreement and progress which has been made to comply with these. After some discussion it was felt that bark which was rejected by the Defense Supplies Corporation because it contained less than two per cent crystallizable alkaloids should be held by the Ecuadoran Development Corporation for disposal as indicated by the seller, either to consumers in Ecuador or in export markets. It was clear that the second point raised by the President was an entirely justifiable complaint. Mr. Rainey pointed out, however, that within the past week or ten days sufficient technical help has arrived and that his office has adequate facilities for making final analyses of cinchona bark. He stated that it would be possible, if necessary, to commence immediately to make the final analyses and to pay the full hundred per cent price for bark on the basis of these analyses. It was realized that authority should probably be secured from Washington before taking this step but in view of the President's attitude and the necessity for some immediate action, I felt that this con-

cession should immediately be made since we clearly have not complied with the provisions of the Agreement.

Mr. Rainey explained that prior to the establishment of any processing plant, some information was essential as to the extent of cinchona stands, the type of bark available, et cetera. He indicated that the primary investigations have now been completed and that he and Mr. Kinnear have already requested that technical assistants be sent to Ecuador as promptly as possible to assist in determining the type of plant which should be erected in Ecuador.

On September 15 I again called on the President with Messrs. Kinnear, Rainey and Tewksbury. I explained that as far as the rejected bark of Senator Miguel Heredia Crespo was concerned, we felt that the Corporation should act as agent for the seller and that if it were to be exported, the Development Corporation was the sole entity having authority to undertake this. In this connection paragraph 3(b) was quoted. The President very emphatically took exception to this statement. He insisted that the statement "in no case shall exports be permitted after June 30, 1943 of cinchona bark or its products" referred exclusively to the contracts existing previous to the signature of the Agreement. In other words, the quoted clause referred exclusively to paragraph 3(b).

After some discussion of this point I explained that it was essential that there be some control exercised which would prevent the exportation of bark containing over two per cent crystallizable alkaloids by those holding bark which had been rejected by Defense Supplies. The President agreed freely that there must be a rigid control. In the case of the consignments of Heredia Crespo held by the Corporation, the President said that since this bark was in the warehouse of the Corporation it could be shipped to its warehouses in Guayaquil and delivered directly to customs for exportation. He further stated that he was in entire agreement that all bark desired by the Defense Supplies Corporation should be delivered to it. He further stated that such measures of control as Defense Supplies and the Ecuadoran Development Corporation desired would be put into effect to insure that no bark was exported in excess of two per cent except by Development Corporation.

It may be that some authorities in Washington will raise a question as to the President's interpretation of the contract as refers to the exportation of bark by private entities. There are a number of conflicting clauses in the Agreement. One says that bark rejected by Defense Supplies may be disposed of freely. Another (paragraph 2, (b)) states that the Agency "will be the sole and exclusive purchaser" and a third says that in no case shall exports of cinchona bark be permitted after June 30 except by the Agency. Due to the am-

biguities, the President's interpretation must undoubtedly be accepted but I believe that his willingness to provide adequate controls is a sufficient safeguard.

At that point Senator Heredia Crespo who had been waiting in the anteroom was called in and the President carefully explained that as provided in the terms of the Agreement, he would be authorized to sell his bark freely if the Defense Supplies Corporation rejected it. The President explained, however, that since some companies might be tempted to export bark of over two per cent, mixing this with rejected bark, it would be necessary to institute rigid export controls. He also made it very clear to Mr. Heredia Crespo that regardless of analyses which he might obtain, the analyses made by Defense Supplies must rule with reference to acceptance or rejection of any specific lots of bark.

Although Senator Heredia Crespo apparently was not completely satisfied with the decision, the President gave the impression that he considers the difficulties with Heredia Crespo settled and that he would support the Corporation and Defense Supplies in this matter. He stated, however, that his one interest was to avoid difficulties and to see that Defense Supplies received the bark it desired. He pointed out that if there was bark which was unacceptable to Defense Supplies he wanted to see this moved in order not to prejudice Ecuadoran interests by having the bark frozen. Senator Heredia Crespo has apparently invested some six hundred thousand sucres in bark, much of which is definitely of an inferior quality and unquestionably includes some lots previously rejected by Defense Supplies. He is apparently much worried for fear that he will not be able to dispose of it without substantial loss.

The President appeared to be satisfied when he was informed that there are now adequate facilities for analyses of bark and full payment on the basis of these.

The President was likewise satisfied with my explanation of what had been done thus far looking toward the establishment of a processing plant. I explained that both Mr. Rainey and Mr. Kinnear have specifically requested that a technical expert be sent to study this problem and I suggested that possibly the Ecuadoran Government would like to name an expert who might consult with the one to be sent from the United States. The President appeared to be pleased with this suggestion.

While it now appears that the immediate dissatisfaction of the President has been dissipated, the threat of a recurrence of this will remain unless every effort is made to comply strictly with the provisions of the Agreement as far as obligations of the United States are concerned. The President has a very legalistic mind and is ex-

tremely keen. Possibly as the result of previous difficulties in connection with the Rubber Agreement, he seems to be suspicious of the good faith of our Government in fulfilling its obligations. Whether the failure to do so has been due to negligence or other reason, it is definitely true that with respect to both the Rubber and Quinine Agreements, there have been clear cut failures to meet our obligations. Under the circumstances I feel that Mr. Rainey did the only thing which could be done in agreeing to make full payment for bark on the basis of his analyses and in admitting that private sellers could export with the proviso that adequate controls would be established.

Respectfully yours,

R. W. SCOTTEN

822.154/470

The Ecuadoran Ambassador (Alfaro) to the Secretary of State

[Translation]

No. 166

WASHINGTON, October 12, 1943.

MR. SECRETARY: By the Agreement dated October 28, 1940 between the Government of Ecuador and the Export-Import Bank of Washington,³⁵ the latter established in favor of the Government a credit of one million one hundred and fifty thousand dollars (\$1,150,000), of which nine hundred thousand dollars (\$900,000) were allotted for the financing of the Pan American Highway in the zone included between the cities of Cuenca and Loja.

In as much as this sum came to be entirely invested, there was signed, on the 26th of January, 1943, a new Agreement between the Government of Ecuador and the Export-Import Bank of Washington,³⁶ by which the amount allotted for the financing of said highway was increased by two hundred thousand dollars (\$200,000).³⁷

I am informed by the Ministry of Finance of Ecuador that the sums of money allotted for the above-mentioned highway are nearly exhausted, and that, in order to finish it, there will be needed, according to the estimates made, an additional new fund of one hundred and thirty thousand dollars (\$130,000).

With these antecedents, I have instructions from my Government to request Your Excellency to be kind enough to recommend to the Export-Import Bank a favorable resolution of the request which the

³⁵ Not printed; for negotiations leading to this agreement, see *Foreign Relations*, 1940, vol. v, pp. 874 ff.

³⁶ Not printed.

³⁷ The Vice President of the Export-Import Bank of Washington, in a letter of August 24, 1943 (822.154A/22), transmitted to the Department copies of an agreement of July 15, 1943 (not printed), whereby a credit of \$1,200,000 was provided for another section of the highway from Tambo to Guamote and a new road from Tambo to Alfaro.

Government of Ecuador is now formulating for an increase of one hundred and thirty thousand dollars (\$130,000) in the amount allotted to the highway program according to the Agreement of October 28, 1940 which was amended January 26, 1943.³⁸

On this occasion I ought to comment on the importance which the above-mentioned highway has for the economy of Ecuador and particularly for the development of the southern provinces and the conclusion of which, that will definitively be effected by means of this last loan, is of vital importance for the utilization of the sections which have been constructed up to the present.

I thank Your Excellency in advance for the attention which you may be kind enough to lend this request and I take this opportunity to repeat the assurances of my highest esteem.

C. E. ALFARO

822.50/290 : Telegram

The Ambassador in Ecuador (Scotten) to the Secretary of State

QUITO, October 15, 1943—2 p. m.

[Received 9:25 p. m.]

908. For Pierson³⁹ Export Import Bank from Moore⁴⁰ and Mersereau.⁴¹ Upon arrival Guayaquil Illingworth who has remained here informed us of his irrevocable resignation because of maladministration by the management of the Corporation.⁴² Upon the installation of the sessions October 11 the Ecuadoran directors stated that the Government was dissatisfied with the present management and wanted at least an Ecuadoran assistant general manager. President Arroyo wanted to see the entire board that afternoon as well as the American Ambassador.

Reference is made to the Embassy's despatch No. 517, September 29, 1943,⁴³ and for the conference with the President reference is made to Embassy's despatch 568, October 12, 1943.⁴⁴ The President notified the directors and the Ambassador that he desired Ecuadoran participation in the management and mentioned an Ecuadoran co-manager. At the following sessions of the board we pointed out

³⁸ The Commercial Attaché in Ecuador indicated in despatch No. 750, November 29, 1943, that the Export-Import Bank had given its approval on October 22 to this increase (822.154/375).

³⁹ Warren Lee Pierson, President, Export-Import Bank.

⁴⁰ Ross E. Moore, Assistant Director of Office of Foreign Agricultural Relations, Department of Agriculture, and a Director of the Ecuadoran Development Corporation.

⁴¹ James F. Mersereau, General Counsel and Representative of the Bank in Ecuador, and Director of the Ecuadoran Development Corporation.

⁴² Rubber Development Corporation.

⁴³ Not printed.

⁴⁴ Not printed; it reported that President Arroyo charged that the Corporation had produced no tangible results (822.50/289).

that the President's suggestion involved a fundamental change in the principle of the Corporation which would require negotiations between the respective Governments. We offered as our personal view the impracticability of divided functions between the Ecuadoran and American co-managers. The Ecuadoran directors were fully in accord. We indicated that our Government's reaction would probably be in favor of a wholly Ecuadoran entity both directorate and management. This was unsatisfactory to the Ecuadoran directors who requested us not to inform Washington until they had an opportunity to discuss the matter with the President alone. The Ecuadoran members met with the President on the 30th and reported that the President was still of his original view regarding co-management as reported in Embassy's despatch 568, October 12 and insisted upon American participation on the board. The Ecuadoran directors stated that the President really wanted full managerial control.

• • •

The Ambassador and ourselves met with the President yesterday. We explained to the President that we were unable to meet his view, as regards co-management and that we were prepared to recommend to Washington that if any change were made in the Corporation the latter should be set up as an entirely Ecuadoran entity with appropriate US control over disbursement of funds. The President immediately asked whether this involved cancellation of the credit. We replied that we had not considered this possibility. The President said that although he still preferred the retention of the American directors nevertheless he would be agreeable to a purely Ecuadoran entity if the credit were continued. We informed him that we would of course transmit his suggestion as to co-managers but would also convey our own views and would await instructions. He agreed.

The Ambassador and ourselves upon consideration of the whole situation here feel that a reorganization is not only desirable but necessary and that a purely Ecuadoran entity would relieve the United States of further operational responsibility. [Moore and Mersereau.]

SCOTTEN

102.8951/1077 : Telegram

The Ambassador in Ecuador (Scotten) to the Secretary of State

Quito, October 19, 1943—noon.

[Received 7:05 p. m.]

915. For Bicknell,⁴⁵ Rubber Development, from Lowry. Yesterday Fomento directors passed resolution for cancellation effective Novem-

⁴⁵ J. W. Bicknell, Vice President of the Rubber Development Corporation.

ber 20 of agreement with United States dated October 17, 1942⁴⁶ for management \$500,000 development fund. Kinnear advises in addition to returning United States management of unexpended balance of \$500,000, Fomento will (1) return to United States as much of road and trail building equipment as has been delivered to them; (2) pay United States for radio equipment now on order when it arrives; (3) return unexpended balance of \$10,000 delivered to Fomento from \$500,000 fund for operation Fomento Rubber Department; (4) pay United States in cash for merchandise as it arrives. We understand cancellation of agreement of October 17 is acceptable to President and we expect to work closely with him on expenditure of balance of fund. Fomento has virtually ceased expenditure of development fund and has no program for unexpended balance. Fomento has no department adequate for operation of organizations on projects and terms specified by United States.

Furthermore future policies of Fomento appear very uncertain in view of persistent demands in the press for reorganization. In view of entire situation and the fact that Fomento has delivered to date only 20 tons of rubber consider it most desirable to accept Fomento's suggestion in order that program can proceed as rapidly as possible and free of extrinsic problems. We believe we can make satisfactory arrangements to continue in one way or another features of Fomento rubber program which we consider desirable. This applies chiefly to Oriente operation. In order to avoid delays in program and to conclude this matter while directors are here please rush cable authorizing us to execute agreement with Fomento as outlined above. The Ambassador agrees with me that procurement program for rubber could best be served by accepting this decision of Fomento and carrying out the proposed liquidation. [Lowry.]

SCOTTEN

822.50/290 : Telegram

*The Acting Secretary of State to the Ambassador in Ecuador
(Scotten)*

WASHINGTON, October 22, 1943—10 p. m.

796. For Mersereau from Pierson. Refer your telegram No. 908 October 15. Pending a full understanding present situation it is impossible to reach any decision. Believe it would be impractical to attempt solution prior to your return to Washington which should be as soon as conveniently possible. . . . You may inform Ecuadorans that suggestion that authority be divided between two co-managers has not

⁴⁶ Not printed.

been favorably received in Washington and that both Eximbank and State Department firmly convinced that such plan is infeasible. Without formal presentation to Ecuadorans be prepared upon return to give us your views upon which of the following two plans might be acceptable to Ecuadorans. 1. Eximbank would consider making corporation wholly Ecuadoran entity although in such case Eximbank would desire employment of (a) Kinnear or other qualified technician as Agricultural Consultant, (b) qualified engineer to act as Consulting Engineer and (c) qualified Comptroller. As in other instances Eximbank would retain right of final approval on all projects submitted. Eximbank would have no objection to having one or more Americans on Board of Directors in such case. 2. Complete dissolution of corporation and transfer of balance of credit to government to finance projects to be passed on by jointly chosen Consulting Engineer and approved by Eximbank. Either of foregoing alternatives would involve closer scrutiny of projects and probable curtailment of types of projects acceptable to Eximbank. [Pierson.]

STETTINIUS

102.8951/1408b : Telegram

*The Acting Secretary of State to the Ambassador in Ecuador
(Scotten)*

WASHINGTON, November 6, 1943—11 p. m.

839. For Lowry from Rubber Development Corporation. Proposed liquidation agreement with Fomento⁴⁷ appears satisfactory provided we are correct in our understanding that all commercial advances to Fomento have been repaid in full⁴⁸ and that Paragraph 1 of Liquidation Agreement applies only to nonreimbursable advances, the expended portions of which will be chargeable to Development Fund, and that the unexpended balance will be returned to RDC to again become part of Development Fund. However, formal approval of Liquidation Agreement cannot be given until next meeting of Directors scheduled for November 10th.⁴⁹ Cable whether our understanding is correct. [Rubber Development Corporation.]

STETTINIUS

⁴⁷ See telegram No. 915, October 19, noon, from the Ambassador in Ecuador, p. 301.

⁴⁸ The Ambassador indicated that this was correct in his telegram No. 973, November 8, 1943 (102.8951/1342).

⁴⁹ In telegram No. 852, November 11, 1943, the Department informed the Ambassador that the Directors had approved the agreement (102.8951/1435h).

822.50/318 : Telegram

The Secretary of State to the Ambassador in Ecuador (Scotten)

WASHINGTON, November 25, 1943—7 p. m.

886. Please get in touch with Kinnear and inform him that the Department and the Bank and Ross Moore do not feel that any substantial change should be made in the structure of the Development Corporation at this time. We believe that the President of Ecuador is now in agreement with this point of view and wishes Kinnear to remain as General Manager and to have an Ecuadoran appointed Assistant Manager. The Department and the Bank are willing to appoint Chiriboga as Assistant Manager if this meets with the President's approval. We feel that the above represents the best solution to the present difficulties and wish you to urge Kinnear to stay on as General Manager. If you can persuade Kinnear to remain as General Manager on this basis please take the matter up with the President and endeavor to get his approval to Chiriboga's appointment.⁵⁰

HULL

**EFFORTS OF THE UNITED STATES AND ECUADORAN GOVERNMENTS
TO CONTROL FINANCIAL TRANSACTIONS INVOLVING THE AXIS**⁵¹

811.515/1953 : Airgram

The Ambassador in Ecuador (Long) to the Secretary of State

QUITO, April 30, 1943—5 p. m.

[Received May 6—noon.]

A-221. Reference Department's circular airgram of April 7, 8:10 pm,⁵² regarding the restrictions on remittances of United States currency.

This matter has been discussed in detail with the Minister of Finance⁵³ who raises no objection to the proposed plan and makes no requests for exceptions in the case of Ecuador.

The Executive Decree issued on August 12, 1942, prohibits the acceptance of United States dollar currency from all sources after September 30, 1942. No deposits of dollar currency held by firms or individuals were permitted after that date with the Central Bank or any other institution for forwarding to the United States. In view of

⁵⁰ The Ambassador reported in his telegram No. 1039, December 1, 1943, 2 p.m., that Kinnear had agreed to remain as general manager of the Corporation for a time, but in his telegram No. 1106, December 18, 11 a.m., he indicated that Chiriboga had declined the appointment by the President as assistant manager (822.50/321, 327).

⁵¹ Continued from *Foreign Relations*, 1942, vol. vi, pp. 415-427.

⁵² Not printed; it proposed fixing a date after which United States currency deposited in the American Republics for collection would be presumed to be Axis-tainted (811.515/1911b).

⁵³ Vicente Illingworth Ycaza.

the broad character of the Executive Decree and the publicity which has previously been given to it, it is not felt that there is any necessity for a statement by the Central Bank such as was indicated in the Department's circular airgram, since the Central Bank has accepted no currency during the past seven months.

A translation of the Executive Decree of August 12 was enclosed with the Embassy's despatch No. 3393 of August 14, 1942,⁵⁴ entitled Ecuadoran Regulation of United States Currency Transactions.

LONG

840.51 Frozen Credits/10678 : Telegram

The Ambassador in Ecuador (Scotten) to the Secretary of State

QUITO, June 11, 1943—9 p. m.

[Received June 12—12:05 p. m.]

516. Reference Embassy's monthly reports on operations of freezing control and other communications regarding draft of new reference control decree under consideration by Ecuadorean Government.

The President⁵⁵ today signed decree number 854 which supplements and amplifies number 171 and which the Embassy considers satisfactory. It gives power to the Minister of Hacienda to carry out most of the important measures suggested in the draft decree and specifically the power to suspend or prohibit transactions and contracts by persons on the Proclaimed List and to vest, administer, liquidate or transfer properties belonging to such persons. No provision is made for implementation of resolutions 2, 3 and 4 of the Washington Conference on Systems of Economic and Financial Control.⁵⁶

No specific arrangements have been made as yet for regulations of decree or administration's organization. Embassy will urge adequate implementation the developments.

Decree number 854 is brief and completely different in form from the draft submitted to the Department with Embassy's despatch No. 3721, November 4, 1942,⁵⁷ and the Embassy was not shown the new form before the third signed.

Copy of new decree with comments will be presented to the Department by air mail.

Repeated to Guayaquil.

SCOTTEN

⁵⁴ Not printed.

⁵⁵ Carlos A. Arroyo del Río.

⁵⁶ For text of these resolutions, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942); for correspondence concerning this Conference, held at Washington June 30–July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff.

⁵⁷ Despatch No. 3721 printed in *Foreign Relations*, 1942, vol. vi, p. 420; enclosed draft not printed.

840.51 Frozen Credits/10772 : Telegram

The Ambassador in Ecuador (Scotten) to the Secretary of State

QUITO, June 25, 1943—3 p. m.

[Received 9:08 p. m.]

552. Reference Embassy's despatch No. 80, June 14⁵⁸ and Department's instruction No. 1573, December 14, 1942⁵⁹ regarding Economic Control Decree No. 854.

The Ministry Finance is drafting plans for forced sale of Saice and Ecupetrol and similar action expected for Casatagua properties. Some outside financing will undoubtedly be required by local interests in one or more of the cases. Instructions are requested as to whether the Export-Import Bank will undertake directly or through the Ecuadoran Development Corporation the necessary financing to eliminate Axis interests and to facilitate nationalization of Proclaimed List properties. Kinnear⁶⁰ and Illingworth are now in Washington and it is hoped that a decision can be reached and a method of procedure established prior to Kinnear's return to Ecuador.

SCOTTEN

840.51 Frozen Credits/10772 : Airgram

The Secretary of State to the Ambassador in Ecuador (Scotten)

WASHINGTON, July 20, 1943—6:00 p. m.

A-561. Reference your telegram no. 552, June 25, 1943. The possibility of Export-Import Bank financing for Ecuador will be discussed with officials of the Export-Import Bank. In this connection, you should consider the terms of the circular instruction of June 18, 1943,⁵⁸ regarding United States financial assistance to eliminate undesirable ownership and control from Proclaimed List firms.

As is indicated in the circular instruction of June 18, 1943, it is considered desirable that local interests acquire the ownership of Proclaimed List properties which are sold. However, should circumstances warrant such a step, the Department will not object to the participation by United States private capital either on a minority ownership basis and/or a management fee basis. More extensive participation by United States capital may be approved in cases where it appears to be necessary.

It would be desirable to report the nature and extent of the outside financing which will probably be required. In regard to Saice,

⁵⁸ Not printed.⁵⁹ *Foreign Relations*, 1942, vol. vi, p. 422.⁶⁰ Edwin Kinnear, American Manager of the Ecuadoran Development Corporation.

you are informed that A. E. Whitehouse and Co., Inc., of 90 Broad Street, New York City, has expressed interest. Whitehouse and Company has been informed that the policy of the Department is to favor local acquisition of Proclaimed List properties, but that if local capital is not interested, the Department has no objection to participation by the United States concern on the basis outlined above.

HULL

EL SALVADOR

AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR WITH RESPECT TO THE APPLICATION OF THE UNITED STATES SELECTIVE TRAINING AND SERVICE ACT OF 1940, AS AMENDED, TO SALVADORAN CITIZENS RESIDING IN THE UNITED STATES

[For text of the agreement, effective May 15, 1943, through an exchange of notes signed at Washington April 3 and May 14 and 31, 1943, see Department of State Executive Agreement Series No. 325, or 57 Stat. (pt. 2) 982.]

AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR EXTENDING THE AGREEMENT OF MARCH 27, 1941, RESPECTING THE DETAIL OF A MILITARY OFFICER TO SERVE AS DIRECTOR OF THE MILITARY SCHOOL AND OF THE MILITARY ACADEMY OF EL SALVADOR

[For text of the agreement, effected by exchange of notes signed at San Salvador March 25, 1943, effective March 27, 1943, see Department of State Executive Agreement Series No. 316, or 57 Stat. (pt. 2) 928.]

AGREEMENT BETWEEN THE UNITED STATES AND EL SALVADOR CONTRACTING FOR THE DETAIL OF A MILITARY OFFICER TO SERVE AS DIRECTOR OF THE MILITARY SCHOOL AND OF THE MILITARY ACADEMY OF EL SALVADOR

[For text of the agreement, signed at San Salvador May 21, 1943, effective May 21, 1943, see Department of State Executive Agreement Series No. 328, or 57 Stat. (pt. 2) 1000.]

OPPOSITION BY THE DEPARTMENT OF STATE TO REQUESTED SALE OF MACHINE GUNS TO EL SALVADOR

816.24/705

The Chief of the Division of the American Republics (Bonsal) to the Assistant Chief of the Division (Cabot)

[WASHINGTON], July 9, 1943.

MR. CABOT: Commander Parker spoke to me this morning about the interest of the Salvadoran Military Attaché, whose name, I believe, is Barón, in obtaining 1,000 submachine guns. May I have your views

on this? It seems to me to be a rather considerable order of an article which has played a sinister role in Central America.

PHILIP W. BONSAI

816.24/706

*The Assistant Chief of the Division of the American Republics
(Cabot) to the Chief of the Division (Bonsal)*

[WASHINGTON,] July 12, 1943.

MR. BONSAI: Neither Mr. Tomlinson ¹ nor I know anything about the Salvadoran request for 1000 submachine guns, and Mr. Orme Wilson ² is also uninformed regarding it. Could it possibly refer to the Salvadoran desire to get some rifles? The Central Americans always seem to want the latest semi-automatic type.

I seem to be in a pugnacious mood these days. With due apologies, I wonder whether the time hasn't also come to modify our lend-lease policy towards the other Republics.

Our policy would originally appear to have been motivated by the following basic considerations:

1. By giving the other Republics an assurance of security and support, we wanted to line them up on our team.
2. We wanted them to have the means to suppress local fifth column movements.
3. We wanted them to be in a position to beat off enemy forays, and to delay more serious thrusts.

Since the establishment of our policy, the validity of all three of these considerations has been 99 percent eliminated by the course of events. As suggested above, the arms are likely to be used for a very different purpose than they were intended—not one consonant with our basic political policies or agreeable to the American taxpayer. And as you pointed out some time ago, the mere fact of the distribution of these arms is tending to stir up international suspicions.

An important corollary to our lend-lease policy in this hemisphere has been our uniform refusal to give anything but direct military aid through lend-lease. But, given the above circumstances, could we not now reverse ourselves and fulfil the commitments already embodied in lend-lease agreements by delivering articles the use of which would be to our mutual long-term advantage, for example, road-building machinery? The consent of the other Republics would of course have to be secured, but I should think they might be willing to substitute a shiny new bull-dozer for a shiny new howitzer, and it

¹ John D. Tomlinson, of the Division of the American Republics.

² Department Liaison Officer with the War and Navy Departments.

seems to me that this would be a neat way to get ourselves gracefully out of our commitments. This would of course have to be done either within the existing law or through an amendment to it, and might enable us to cut down our total commitments very considerably while assuaging any hurt feelings in the other Republics at not getting their lethal toys.

Attached is a memorandum from the Salvadoran Embassy requesting permission to purchase some road equipment to be used on the maintenance of the Inter-American Highway, as mentioned in my previous memorandum.⁵ The Army favors this request. Wouldn't this be a good point to start?

816.24/620a : Telegram

The Secretary of State to the Ambassador in El Salvador (Thurston)

WASHINGTON, July 20, 1943—4 p. m.

150. The Coast Guard has been requested by the Salvadoran Military Attaché to sell 1,000 surplus submachine guns to the Salvadoran police.

Please ascertain very discreetly as much as you can concerning the background and motives of this transaction and report by cable.

HULL

816.24/622 : Telegram

The Ambassador in El Salvador (Thurston) to the Secretary of State

SAN SALVADOR, July 21, 1943—noon.

[Received 9:51 p. m.]

189. Department's 150, July 20, 4 p. m. The Subsecretary of National Defense states that an order for 1000 sub-machine guns has been placed with the Harrington and Richardson Arms Company Worcester, Massachusetts, upon the recommendation of the Salvadoran Military Attaché. He added that this equipment is required by the national guard (about 800 men) and army officers, to replace obsolescent guns. He made no mention of a request for such material addressed to the Coast Guard.

As the Department is aware from my reports, it appears to be the intention to amend the Salvadoran Constitution to facilitate General Martínez continuation in the Presidency for a fourth term. It is possible that opposition to this plan may develop and that this particular type of weapon may be desired for the repression of civil disorders.

⁵ Neither memorandum printed.

I have requested the Military Attaché⁶ to investigate through different channels and I shall forward his report by airgram.

THURSTON

816.24/708

Memorandum by the Liaison Officer With the War and Navy Departments (Wilson) to Lieutenant Colonel N. A. Costello, Operations Division, War Department

[WASHINGTON,] July 23, 1943.

Referring to your recent telephone conversation with Mr. Key⁷ concerning a request made by the Salvadoran Military Attaché that the Salvadoran Government be furnished with 1000 Reising sub-machine guns plus ammunition and parts under Lend-Lease, it would be appreciated if the War Department would obtain the views of the Commanding General, Panama Canal Zone,⁸ as to the desirability or not of acceding to this request in the light of present conditions in Salvador and neighboring areas.

There are attached, for your information, the texts in paraphrase of telegrams on this subject exchanged between the Department and the Embassy at San Salvador.⁹

ORME WILSON

816.24/710

Memorandum by the Acting Liaison Officer With the War and Navy Departments (Key) to Rear Admiral W. O. Spears, Director, Pan American Division, Office of Naval Intelligence, Navy Department

[WASHINGTON,] August 16, 1943.

In compliance with the request contained in your memorandum of July 14, 1943¹⁰ there are returned herewith the original letters from the Navy Department's files pertaining to a request of the Government of El Salvador for sub-machine guns.

The Department has given careful consideration to the factors underlying this request and has come to the conclusion that it would be undesirable to furnish any of these sub-machine guns to the Government of El Salvador.

⁶ Maj. Charles P. Baldwin.

⁷ David McK. Key, Assistant Liaison Officer with the War and Navy Departments.

⁸ Lt. Gen. George H. Brett. No reply from General Brett has been found in Department files, but see reference to his recommendation in memorandum of August 16 by the Acting Liaison Officer, *infra*.

⁹ Telegrams Nos. 150 and 189, p. 310.

¹⁰ Not printed.

The Department's position is in part based on an emphatic recommendation by General Brett against compliance with the Salvadoran request.

In these circumstances, it [is] the earnest hope of this Department that the Navy Department will not accede to the request made by Major Barón in his letter of June 8, 1943 addressed to Vice Admiral Waesche.¹¹

DAVID McK. KEY

EFFORTS TO READJUST EL SALVADOR'S PETROLEUM ALLOTMENT

816.51/1153: Airgram

The Ambassador in El Salvador (Thurston) to the Secretary of State

SAN SALVADOR, May 11, 1943.

[Received May 13—4 p. m.]

A-142. Embassy's telegram No. 131, May 7, 4 p. m. [*a. m.*] ¹² Señor R. Arturo Bustamante, Subsecretary of Finance, called at the Embassy this morning to inform me of the objectives of the Economic Mission to the United States, of which he is the head.¹³

With respect to the Mission's activities in Mexico, Sr. Bustamante stated that they will consist of an effort to obtain petroleum products there (in connection with which he said Guatemala is now receiving Mexican gasoline which is not being deducted from its American quota),¹⁴ and also the removal of certain restrictions now imposed by the Mexican authorities upon the transit of Salvadoran coffee overland to the United States.

In Washington the secondary objective of the Mission will be to obtain for El Salvador a larger quota of American gasoline and petroleum products required in part to meet the demands of the mining industry here.

The major purpose of the visit to Washington, however, is to take up with the American authorities the question of the Salvadoran external debt. Sr. Bustamante stated that he hopes to receive the Department's support of a proposal for revision of the Salvadoran debt. Although he did not explicitly so state, I received the impression that the pro-

¹¹ Letter to Vice Adm. Russel R. Waesche, Coast Guard, not found in Department files.

¹² Not printed.

¹³ Under date of May 7, 1943, the Government of El Salvador appointed R. A. Bustamante, Victor C. Barriere (Director General of the Budget), and Francisco Alfredo Mejía (Member of the Committee for Economic Coordination of El Salvador) delegates constituting an Economic Mission to the United States.

¹⁴ For mention of Mexico's petroleum exports to Central America, see letter of August 31 from the Ambassador in Mexico to the Assistant Chief of the Division of the American Republics and instruction No. 4606, October 23, to the Ambassador in Mexico, pp. 463 and 465, respectively.

posal he will present will follow very closely the outline of the memorandum enclosed with the Embassy's confidential despatch No. 324 of April 28.¹⁵

THURSTON

816.6363/71a : Airgram

The Secretary of State to the Ambassador in El Salvador (Thurston)

WASHINGTON, May 31, 1943—6:30 p. m.

A-250. There is being sent you by airmail a copy of a statement¹⁶ showing sales of petroleum production for consumption in El Salvador as compared with estimated requirements in accordance with the pool formula.¹⁷ From this statement for El Salvador for the 3 months ending March 1943, it is abundantly clear that rationing in El Salvador is not only failing to effectively keep petroleum consumption within the quota but that, in addition, total over-all tonnage made available for this country has been exceeded.

It is obvious that this situation cannot continue without developing petroleum shortages. You should therefore immediately take this up with the appropriate El Salvadoran authorities, and strongly urge that the necessary steps be taken to bring consumption within the supplies available to El Salvador.

The El Salvadoran authorities should be warned of the gravity of the situation and informed that if they run out of supplies by exceeding the quantities allocated to them, there can be no dependence upon the pool making up deficiencies. You should stress that the tanker situation continues to be restricted and that sight must not be lost of the fact that all deliveries are subject to the exigencies of war.

HULL

¹⁵ Not printed; for correspondence on the Mission's negotiations concerning settlement of the Salvadoran external debt, see pp. 329 ff.

¹⁶ Not printed; it was transmitted with Department's instruction No. 191, June 2, 1943.

¹⁷ A quota of 40 percent of 1941 consumption, plus war essentials, and such additional amounts as could be proved to be absolutely necessary to prevent serious economic dislocation and which could be supplied by available transportation facilities.

816.6363/82

*Memorandum of Conversation, by the Assistant Chief of the Division
of the American Republics (Cabot)*

[WASHINGTON,] June 16, 1943.

Participants: Señor Bustamante, Salvadoran Mission
Señor Mejía, Salvadoran Mission
Señor Vega-Gomez, Salvadoran Embassy ¹⁸
Mr. Sappington, AP ¹⁹
Mr. Nuland, AP ²⁰
Mr. Cabot, RA

I accompanied the Salvadoran Economic Mission to a meeting in the Petroleum Adviser's office to discuss the Salvadoran Government's request for additional (over quota) allotments of petroleum products. Señor Mejía, speaking for the rationing authority in El Salvador, began by saying that the rationing authority had made every effort to maintain consumption within quota limits, that they had received numerous commendations for the manner in which they had done this, and that they were consequently somewhat surprised just before leaving to hear that we had complained that they were running over their quota. A very friendly conversation followed in which it appeared that while Salvador had overconsumed in some products, overconsumption had been balanced by underconsumption of gasoline.

The Salvadorans said that when their mission asked for an additional allotment (which had been granted) to move the coffee crop they had overlooked certain other essentials at other seasons, for example, gasoline for the cotton industry, and asked if we could give equally favorable treatment to such cases. Mr. Sappington then advised the Mission of preliminary allotments for war essential and economic essential uses which had been approved by the Essentials Requirements Committee on the basis of information sent by our Embassy in San Salvador. From the conversation which followed, it was not possible to make a careful study of the extent to which these allotments would meet the full Salvadoran needs. The Salvadoran Mission consequently said that they would study the matter carefully and probably get in touch with us again in a day or two.

Señor Bustamante raised the question of fuel for the maintenance of the gold mines. It was pointed out that the gold mines in the United States had been closed down, and that we had severely restricted supplies to the Nicaraguan gold mines in spite of their importance to

¹⁸ Felipe Vega-Gómez, Attaché.

¹⁹ James C. Sappington, Assistant Chief, Office of the Petroleum Adviser.

²⁰ L. H. Nuland, Executive Secretary of the Inter-departmental Essentials Requirements Committee and representative of the Petroleum Administration for War.

the economy of the country. Señor Bustamante explained that the gold mines in El Salvador actually produced about 40 times as much silver as gold by volume, but that they would flood if they were not kept pumped, and that one section of El Salvador largely depended on them for its livelihood. Mr. Cabot said that he was not very hopeful that anything could be done to secure critical materials for Salvadoran gold mines.

Although there were points of disagreement during the conversation, it was entirely affable and each side at the end seemed fully to understand the other.

June 28 and 29.

At subsequent meetings, the Mission again requested an additional allotment for the cotton industry. In this connection, the Mission pointed out that the seasonal allotment for last season for the coffee industry had not been entirely utilized since the Salvadorans had looked upon the allotment as for use only until the end of the calendar year. Thus, with a late crop, Salvador had used regular quota oil for coffee needs in the new year. Also the Mission stated that the gold mining industry would be put on a quota (40%) basis for oil needs.²¹ On the basis of the arguments advanced, an additional 1000 barrels of oil was approved for the remainder of 1943 for the cotton industry, which amount it was estimated, when added to oil saved from the reduction of the gold mine requirements, would put the industry on a current basis regarding needed oil supplies.

816.6363/77

The Ambassador in El Salvador (Thurston) to the Secretary of State

[Extracts]

No. 473

SAN SALVADOR, June 19, 1943.

[Received June 25.]

SIR: I have the honor to refer to the Department's airgram No. A-250 of May 31, 1943 (6:30 p. m.) and instruction No. 191 of June 2, 1943,²² concerning the statement of the Petroleum Supply Committee for Latin America showing that sales of petroleum products for consumption in El Salvador as compared with estimated requirements for the first three months of 1943 had exceeded the quota.

As reported in the Embassy's airgram No. A-185 of June 4, 1943,²³

²¹ On the basis of the Nuland formula for petroleum distribution, industries considered non-essential to the war effort were granted 40 percent of normal consumption.

²² Latter not printed.

²³ Not printed.

and in compliance with the original instruction,²⁴ the Department's views were transmitted at once, informally, to the Salvadoran Sub Comité de Combustibles and, formally, to the Salvadoran Minister of Foreign Affairs.²⁵ In reply, the Embassy has now received a communication from the Sub Comité de Combustibles and a copy, in the original Spanish, is forwarded herewith.

[Here follows in translation the Sub Comité's communication of June 8 to Ambassador Thurston explaining El Salvador's excess petroleum consumption.]

I had occasion to call on the Minister of Foreign Affairs on June 10 in connection with another matter. He brought up the subject of the Embassy's note regarding Salvadoran excess consumption of petroleum products and stated that he had been requested by the Minister of Finance²⁶ to say to me orally and informally that out of deference to the Embassy the official reply to the Embassy's note above cited would be perfunctory, but that in fact the Government associated itself fully with the terms of the communication addressed to the Embassy on June 8 by the Sub Comité de Combustibles. I replied that I understood that perhaps the Embassy's note was a bit firm in tone, but that after giving thought to the matter I had decided that I would address it to the foreign office nonetheless. I added that it seemed to me likely that when the matter had been gone into thoroughly it would be found that certain corrective measures would have to be taken here in order to ensure the continued supply of petroleum products required by El Salvador and I pointed out that according to reports that had been brought to the Embassy, one of the major defects in the present system is the lack of adequate control over governmental withdrawals.

In despatch No. 463 of June 15, 1943,²⁷ the results of a thorough analysis of the statement of the Petroleum Supply Committee on petroleum consumption in El Salvador were reported. In brief, this report shows that national sales for the first three months of the current year in the Republic had exceeded the quota by only 3.7% and that appreciable excesses, if any, had occurred only in the special allotments for essential industries and activities. A large part of the overconsumption computed in this category was due to an error in the allocation of gasoline and diesel oil for moving the local coffee crop on a basis of average monthly consumption rather than on specific monthly consumption for the crop season. This error alone accounted for a large part of the alleged overdrawals, and the balance was due

²⁴ Airgram No. A-250, p. 313.

²⁵ Ambassador Thurston, on June 3, addressed a letter on this subject to the Salvadoran Minister for Foreign Affairs, Arturo Ramón Avila.

²⁶ Rodrigo Samayoa.

²⁷ Not printed.

to extra gasoline, diesel oil and fuel oil for the construction of the Pan-American Highway and for the use of the International Railways of Central America, both uses of special interest to the United States Government. In view of these considerations, it seems doubtful whether or not El Salvador's excess consumption of petroleum products for the first three months of 1943 was really of a serious nature.

Since this period, however, that is during April and May, overdrafts on petroleum products for "national sales" have steadily mounted and have reached a cumulative total of 2,294 barrels. It is believed that this excess consumption can be offset only by rather drastic measures. The note of the Sub Comité de Combustibles, although courteously worded, gives no assurance that such measures will be taken, indeed it seems to indicate that this body is entirely unwilling to curtail consumption further.

Since the inception of its rationing system the Government of El Salvador has maintained that consumption of kerosene, the principal means of lighting for the masses of the rural population, could not be cut much below normal levels and that ample supplies of diesel oil were basically essential to the economy of the country for urban and interurban passenger and produce transportation. To provide these supplies, then, a policy of drastic curtailment of motor gasoline consumption²⁸ in order to allow for almost normal consumption of kerosene and diesel oil was adopted, and this policy was reasonably successful until about the end of March 1943. Since then underconsumption of gasoline has not offset overconsumption of the other two products.

Respectfully yours,

WALTER THURSTON

816.6363/75 : Airgram

The Secretary of State to the Ambassador in El Salvador (Thurston)

WASHINGTON, July 1, 1943—2 p. m.

A-286. Your despatch no. 381, May 19; A-155, May 25; and A-212, June 12, 1943.²⁹ The following memorandum has been handed to the Salvadoran Economic Mission:³⁰

"As the Salvadoran Economic Mission is aware, careful consideration, in the light of the continuing serious tanker situation, has been

²⁸ The Ambassador in El Salvador, in a section of this despatch here omitted, praised the curtailment program, stating that nearly 50 percent of all private cars had been denied gasoline altogether and that the remaining private automobiles were being allotted the barest minimum. He added, however, that gasoline for government official and unofficial cars had been curtailed scarcely at all.

²⁹ None printed.

³⁰ The Mission arrived in June, following a brief stay in Mexico.

given by the Essentials Requirements Committee to the statement regarding Salvadoran Consumption and requirements for gasoline and diesel oil which was furnished the American Embassy at San Salvador by Señor Alfredo Mejía. The additional memorandums, presented by the Mission in regard to this subject, have also received most careful consideration.

"The following table sets forth the amounts of petroleum products which had already been scheduled to be supplied to El Salvador for the year 1943 for war essential uses:

	<i>Aviation Gasoline</i>	<i>Motor Gasoline</i>	<i>Refined Oil</i>	<i>Gas Oil</i>	<i>Fuel Oil</i>	<i>Bbls. 42's Total</i>
Military -----	1, 400	5, 400	—	—	—	6, 800
Commercial Airlines-----	3, 500	100	—	—	—	3, 600
Bunkers -----	—	—	—	200	10, 000	10, 200
Pan-American Highway--	—	2, 200	—	—	—	2, 200
Coffee Industry-----	—	7, 900	—	11, 300	—	19, 200
I.R.C.A. ³¹ -----	—	300	—	500	98, 000	98, 800
Sisal -----	—	100	—	800	—	900
Total Essentials 1943-----	4, 900	16, 000	—	12, 800	108, 000	141, 700

"The memorandums from the Salvadoran Economic Mission request additional amounts of gasoline and diesel oil for highway construction. Requirements for petroleum products for the construction in El Salvador of strategic highways will be supplied on a war essential basis, and all such requirements should be transmitted through the Salvadoran Pool Committee to the Petroleum Supply Committee for Latin America, which will make the necessary amounts available. In this connection, it will be noted that the above table already lists an estimated quantity of 2,200 barrels of gasoline for the Pan-American Highway.

"Additional quantities of gasoline totaling 1,302 barrels of 42's and additional quantities of diesel oil totaling 968 barrels of 42's will be supplied to El Salvador for the period May 1 to December 31 for the following war essential uses:

	<i>Gasoline</i>	<i>Diesel Oil</i>	<i>Bbls. 42's</i>
Coffee -----	997	759	
Civil Aviation-----	42		
I.R.C.A.-----	178	209	
Rubber -----	9		
Roselle (Defense Supply Corp.)-----	76		
Total -----	1302	968	

"Moreover, additional global allotments of 1,208 barrels of gasoline and 1,673 barrels of diesel oil will be supplied to El Salvador for the period requested by the Mission, that is, from May 1 to December 31, 1943, for purposes essential to the economy of El Salvador. While these allotments are subject, as in the case of the 40 percent quota, to such allocation as the Salvadoran authorities may see fit to make, they are made available because of such needs as those of the Salvador Railway and Agencia Salvadoreña (truck service to the port of La Libertad), the requirements for which, as given in the statement from Señor Mejía, were fully included.

"With respect to the Mission's request, contained in its memorandums,³² that an additional quantity be made available for the Inter-

³¹ International Railways of Central America.

³² Not found in Department files.

national Railways of Central America, it is pointed out that the new allotments for war essential uses include 178 barrels of gasoline and 209 barrels of diesel oil for that railway.

"It is noted from the Mission's Memorandum that, in accordance with the conversation between the Mission and officers of the Department, a statement concerning the kerosene requirements of El Salvador will be transmitted through the American Embassy at San Salvador. This statement of requirements, when received, will be given the most careful consideration."

The Supply Committee for Latin America is being instructed to make available to El Salvador the additional new allotments as set forth in the above memorandum, and the Salvadoran Economic Mission has been advised that the contents of the memorandum would be sent to you.

The question of establishment, in accordance with supply pool principles, of a supply pool committee has been discussed with Sr. Bustamante. Since the Inter-American Petroleum Supply Pool is a collaborative endeavor among the participating countries, it is considered advisable that each such country establish a pool committee consisting of representatives of the government and of the petroleum companies supplying the country. These committees are national committees of the participating countries and are in no sense subcommittees of the Petroleum Supply Committee for Latin America. The latter committee makes supplies available in accordance with instructions based on supply pool principles, and does not formulate policy in regard to the operation of the pool. The national pool committee should collaborate with the Petroleum Supply Committee for Latin America in regard to petroleum supplies and with the rationing and other interested agencies of the local government.

The advisability of formalizing the Salvadoran pool committee along the foregoing lines was suggested to Sr. Bustamante, who indicated his agreement. It was requested that you also discuss this matter with the appropriate Salvadoran authorities.

With reference to our A-250, May 31 and your A-185, June 4,³³ we have considered with the Mission the question of Salvadoran rationing of allotments available to Salvador. This examination with the Mission of consumption as compared with allotments during the first 4 months of 1943 indicates that the rationing of gasoline by Salvadoran rationing authorities has been very good, the amount saved more than offsetting the over-consumption of gas oil and kerosene. In this connection, as you know, within its total allotment a country may substitute more of one product for less of another. The over-consumption of fuel oil apparently has been in the war essential category, which of course is not subject to rationing, and indicates

³³ Latter not printed.

either that needs have been underestimated or that consumption has been at a rate greater than actual needs. From information contained in your A-155³⁴ it appears that excessive quantities may have been allotted to essential requirements.

On the basis of the foregoing, the Mission was complimented on the fact that in general Salvador appears to have done good work in rationing during the first four months of this year. You should, however, continue on appropriate occasions to urge that this good work be continued and that rationing be kept strictly within available allotments. The Salvadoran authorities must continue to keep clearly in mind that the tanker situation continues serious and that all deliveries are subject to the exigencies of war.

HULL

816.6363/75 : Airgram

The Secretary of State to the Ambassador in El Salvador (Thurston)

WASHINGTON, July 7, 1943—5:30 p. m.

A-297. Department's A-286, July 1, 1943. After receiving the Department's memorandum of June 25, which was quoted in the airgram under reference, the Salvadoran Economic Mission requested an additional 100,000 gallons of diesel oil for the cotton industry for the 6 months' period May 1 to September 30. The Mission stated that the total requirements for the cotton industry amounted to approximately 132,000 gallons but that the remaining 32,000 gallons would be supplied from the 40 percent quota. The Mission further stated that the requirements for the mines would be reduced to 40 percent of consumption, that is, from about 25,536 gallons to 10,214 gallons per month, thus saving 15,322 gallons per month.

It was realized that, while over a period of time this savings would take care of the estimated needs of the cotton crop, this would not be accomplished during the remainder of this year. After discussions with the Mission on the basis of the information presented, with account taken of your recent pertinent despatches, the decision was reached to supply a further 1,000 barrels of oil to Salvador during the remainder of the year in order that the needs of the cotton industry can be covered on an approximately current basis. Accordingly, the following supplemental memorandum, which revises as indicated the Department's memorandum of June 25, was handed to the Mission on June 30:

"Reference is made to the memorandum from the Salvadoran Economic Mission dated June 28, 1943,³⁵ in which an allotment of

³⁴ Dated May 25, 1943, not printed.

³⁵ Not found in Department files.

diesel oil in addition to those set forth in the Department's memorandum of June 25, 1943, is requested to take care of the needs of the Salvadoran cotton industry. Most careful consideration has been given to this request in the light of the pertinent information contained in that memorandum and the previous memorandums from the Salvadoran Economic Mission and account has been taken of the facts presented orally by the Mission in regard to this matter. As a result of this consideration an additional allotment of 1,000 barrels of diesel oil will be supplied to El Salvador during the remainder of this year in view of the requirements of the cotton industry.

"As the Mission has requested in paragraph numbered 3 under the heading 'Remarks' in its memorandum of June 28, 1943, the quantities of 176 [178] barrels of gasoline and 209 barrels of diesel oil listed in the table on the third page of the Department's memorandum of June 25, which are being supplied because of the needs of the truck service associated with the International Railways of Central America and not for the railway, will be removed from the war essential classification and added to the global allotments made available for purposes essential to the economy of El Salvador.

"As a consequence of the foregoing, the global allotment of 1,208 barrels of gasoline, given in the Department's memorandum of June 25, 1943, will be increased by the addition of 176 barrels to a total of 1,384 barrels. Similarly, the global allotment of 1,673 barrels of diesel oil will be increased by the addition of 209 barrels and 1,000 barrels to a total of 2,882 barrels. The total new allotment for war essential uses, as stated on page 3 of the Department's memorandum afore-mentioned, should be reduced accordingly to 1,126 [1,124] barrels of gasoline and 759 barrels of diesel oil.

"With regard to paragraph numbered 4 in the Mission's memorandum under reference, the above-mentioned global allotments of 1,384 barrels of gasoline and 2,882 barrels of diesel oil are maximum amounts made available, in addition to the quota, on the basis of requirements considered in the light of the supply situation. They are subject to allocation by the appropriate rationing authorities but should not be exceeded."

[Here follows a paragraph making the two above-indicated corrections in the number of barrels of gasoline to be supplied.]

The Mission referred to the fact that they had applied to the Board of Economic Warfare for serial numbers for the mines which would enable them to obtain critical materials, and inquired whether oil would be made available for any mine which received such a number. Sr. Mejía indicated that he had hope only in one case, that of the silver mine, of being granted such a number. The Mission was informed that if a serial number was granted in the case of any mine, the necessary requirements for oil would be met.

The Embassy, by its endeavor with the Salvadoran authorities and by its reports to the Department, has been most helpful in regard to the various recent questions concerning the supply of oil to Salvador.

HULL

S16.6363/83

The Chargé in El Salvador (Gade) to the Secretary of State

[Extract]

No. 692

SAN SALVADOR, August 25, 1943.

[Received September 1.]

SIR: I have the honor to refer to the Department's airgram No. 326 of July 26, 1943³⁷ and to detail the results of a re-examination of the requirements of El Salvador for petroleum products for all agencies, firms and individuals now being supplied on an essential basis.

As announced by the Department's circular airgram of July 20, 1943,³⁷ Mr. L. H. Nuland arrived in El Salvador on August 18th. The files of this Embassy were made available to him and he was given all possible information and assistance. His first two days were taken up by a general study of the petroleum situation and in interviews with various officials and other individuals interested in the petroleum problem. At the suggestion of this Embassy and with Mr. Nuland's concurrence, Mr. W. W. Renwick, president of the Committee of Economic Coordination then called a meeting of the members of the local pool Committee, the local rationing board and the Committee of Economic Coordination. An officer of the Embassy was present as an observer.

Mr. Nuland first outlined the petroleum situation and the necessity for a re-examination and re-scheduling of the essential petroleum requirements. The meeting was then opened to discussion and each essential category was taken up. The following recalculation by categories of operations and uses was arrived at:

EL SALVADOR ESTIMATED REQUIREMENTS
PETROLEUM ESSENTIALS

	<i>Aviation Gasoline</i>	<i>Motor Gasoline</i>	<i>Refined Oil</i>	<i>Gas Oil</i>	<i>Fuel Oil</i>	<i>Totals</i>
Military -----	1, 400	1, 600	—	—	—	3, 000
Commercial Airlines ----	*3, 500	300	—	—	—	3, 800
Bunkers -----	—	—	—	200	†	200
Pan American Highway --	—	6, 000	—	—	—	6, 000
Coffee Industry -----	‡	997	—	759	—	1, 756
I.R.C.A. -----	—	300	—	500	120, 876	121, 676
Sisal -----	—	100	—	800	—	900
Civilian Aviation -----	—	42	—	—	—	42
Rubber Production ----	—	36	—	—	—	36
Roselle Production ----	—	246	—	—	—	246
Cotton Production ----	—	—	—	\$1, 000	—	1, 000
Global Allotment -----	—	1, 386	||300	2, 882	—	4, 568
Serial Number Mines ---	—	—	—	¶2, 476	—	2, 476

*Excludes U.S. Navy. [Footnotes in the original.]

†Any emergency requirements can be met temporarily from Railway Company Supplies.

‡For months April–October when 1943/1944 coffee crop estimate will be submitted on basis of 1942/1943 consumption figures.

§July 1 to December 31, 1943.

||Last six months of year.

¶May 1st 1943–December 31st 1943.

³⁷ Not printed.

The above new proposed schedule may be compared with the schedule given in the Department's airgram No. 326 of July 26, 1943. The following explanatory comments cover only those points wherein the above schedule differs from the original schedule.

Conclusion

Mr. Nuland thought that an ample investigation had been made and that this new schedule, subject to the determination at a later date of the estimate of requirements for the coffee industry for the coming season, represented as just and equitable a scheduling of El Salvador's requirements for petroleum products in the essential categories as could be arrived at in the light of past performance and anticipation of future needs. This Embassy concurs and it is recommended that the new schedule be set up in as close conformity with this proposal as possible.

Mr. Nuland's efficient and effective work during his short stay in El Salvador is particularly to be commended and this Embassy has greatly appreciated his assistance and cooperation.

Respectfully yours,

GERHARD GADE

816.6363/86

The Ambassador in El Salvador (Thurston) to the Secretary of State

No. 839

SAN SALVADOR, October 9, 1943.

[Received October 14.]

SIR: I have the honor to refer to the Department's airgram instruction No. 326 of July 26, 1943, 7:00 p. m.,³⁸ requesting a re-examination of the requirements of El Salvador for petroleum products for all agencies, firms and individuals to be supplied on an essential basis, and to this Embassy's despatch No. 692 of August 25, 1943 written in reply, and particularly to the section on the Coffee Industry appearing on page 3³⁹ and the Conclusions appearing on page 6, in which it was stated that the question of motor gasoline and diesel oil necessary for handling the 1943/1944 coffee crop would require further investigation and would be dealt with in a subsequent despatch.

The Salvadoran Sub Comité de Combustibles, the local rationing agency, and the local pool committee have now completed their study of the requirements for the coffee season in question, which extends from October 1, 1943 to June 30, 1944, inclusive, their report has just been received by this Embassy and it is transmitted in full herewith.³⁸ The figures compiled and the conclusions drawn have been investigated by this Embassy in collaboration with Mr. W. W.

³⁸ Not printed.

³⁹ This section of despatch No. 692 not printed.

Renwick, President of the Salvadoran Committee of Economic Coordination. It is the opinion of the Embassy that the request for 284,965 gallons of motor gasoline and 294,744 gallons of diesel oil represents a reasonably just and equitable scheduling of El Salvador's requirements for these two petroleum products for the coffee crop as an essential industry for the period mentioned. It is recommended that amounts in as close conformity as possible with these estimates be set up in the new general petroleum products schedule for El Salvador.⁴¹

Respectfully yours,

WALTER THURSTON

**INTEREST OF THE UNITED STATES IN THE DISPOSITION OF AXIS
PROPERTIES IN EL SALVADOR**

840.51 Frozen Credits/10824

The Ambassador in El Salvador (Thurston) to the Secretary of State

No. 498

SAN SALVADOR, June 26, 1943.

[Received July 1.]

SIR: There were transmitted to the Department with the Embassy's despatches 169 and 175, of March 10 and March 12, 1943,⁴² draft copies of a fund-freezing law and a law governing the sale of properties belonging to firms or individuals on the proclaimed list, which it was understood would soon be approved by the National Assembly and made effective by the Executive Power.

It recently became apparent, however, that although the proposed laws had been approved by the Assembly, the Salvadoran executive authorities were reluctant, if not entirely unwilling, to put them into operation. The Minister of Finance, Dr. Samayoa, with whom Mr. Maleady and Mr. Ryan⁴³ had several exhaustive conversations on the subject, held tenaciously to the contention that there are grave Constitutional objections to the contemplated measures, and cited in support of his argument the following articles of the Salvadoran Constitution: Article 34 (forbidding confiscation and making the officials who violate the prohibition responsible both as to their persons and properties); 37 (guaranteeing persons as to their life, liberty, and property); 39 (trial by previously existing courts under previously existing laws); 42 (laws not to have retroactive effect); 50 (inviolability of property); and 177 (responsibility of officials for

⁴¹ The requested allocations of 284,965 gallons of gasoline and 294,744 gallons of diesel oil to be supplied for the coffee crop during the period October 1, 1943, to June 30, 1944, inclusive, were reported approved by the Department in its telegram No. 247 of November 9 to the Embassy in El Salvador (816.6363/91).

⁴² Neither printed.

⁴³ Joseph E. Maleady, Vice Consul, and Daniel V. Ryan, special assistant, at the Embassy in El Salvador.

crimes—*delitos*—committed while in office). Attempts to show that the Constitutional provisions enumerated need not be construed to prevent the enactment of the desired laws were unavailing, as were other points adduced, such as the fact that our own Constitution contains strong prohibitions against the confiscation of property—despite which, wartime measures affecting enemy alien property in the United States have not been nullified by the American courts—and the Embassy's opinion that even without the enactment of new legislation the desired objectives could be attained under the laws of March 7 and June 4, 1942.

When it had become clear that this was the situation, it was decided that I should take up the subject directly with President Martínez and accordingly, on June 25, accompanied by Mr. Maleady and Mr. Ryan, I called on the President for that purpose. The Minister of Finance and the Minister and Sub-Secretary of Foreign Affairs⁴⁴ were also present at the interview.

I began the conversation by stating to the President that the fine cooperation that has been given by the Government of El Salvador during the past year in connection with the blocking and sale of alien funds and properties had been greatly appreciated, and that it had been hoped that this cooperation would carry through to the final accomplishment of our objective of eliminating Axis interests through the enactment of certain legislation recently passed by the National Legislative Assembly. The President immediately replied that his Government was confronted in this matter by a problem of Constitutionality—since not only the proposed measures but also those of last March and June were unconstitutional and could expose members of the Government, including himself, to punitive proceedings, and that the only solution of the problem lay in calling a plebiscite for the purpose of making the necessary amendments to the Constitution.

It is becoming increasingly obvious (and I was informed of the fact almost by direct assertion a few days ago by Señor Francisco Aguilar, a close associate of the President) that it is the intention to bring about General Martínez' continuation in office for a fourth term. Inasmuch as the Constitution of 1939 (itself the product of a Constituent Assembly designed to make possible Martínez' present third term) forbids succession in office, the only means by which this plan can be carried out is by another Constituent Assembly and change of Constitution. It is to be assumed that the President and his advisers would be glad to seize upon our desire to effect the liquidation of enemy alien interests in El Salvador as the pretext for convoking a Constituent Assembly. In view of these considerations I promptly and explicitly stated that the convocation of a Constituent

⁴⁴ Arturo Ramón Avila (Minister) and Joaquín Leiva (Sub-Secretary).

Assembly and the amendment of the Constitution were matters of such an intimately local nature, affecting the sovereign acts of El Salvador, that the Embassy could not be a party to, or be put in the position of being a party to, or responsible for, any action of the kind.

At this point, Mr. Ryan and Mr. Maleady took up the discussion on its factual basis, pointing out that the Salvadoran Government had proceeded with sales of Axis properties for more than one year under their laws of last March and June, and that it seemed inexplicable that the Government should now suddenly discover the constitutional hindrances cited, the more so as no challenge has been made in the courts. They stated that the American Constitution also prohibits confiscation but that we had sold Axis properties already vested and that no constitutional doubt on such war measures had ever been raised in the United States. The President and the Ministers present asserted that their constitutional apprehensions are not based on doubts but on conviction, and that the only solution was to call a Constituent Assembly in order to amend the Constitution.

President Martínez was pointedly asked whether it was the continuing policy of his Government to sell all Axis properties both real and personal. He replied that he would go ahead with such sales, but would confine them to stores and similar properties, and would not under present conditions endeavor to carry out the sale of agricultural properties. No explanation was forthcoming of the distinction drawn between the sale of stores, for example, and real property—but the President and Dr. Samayoa both remarked that agricultural properties can not be sold because the persons in charge of the Real Estate Registry Office (*Registro de Propiedad Raiz*) would not register such sales because they would not be constitutional. Dr. Samayoa also remarked that no one would purchase such properties because of the fear that the sale might be classified as illegal by a future government.

It was apparent that the President and his associates were attempting to impress us largely by the vehemence of their assertions and that they were uninformed with regard not only to the Constitution of the United States, but that of El Salvador: for example, they apparently believed that the Constitution of the United States could be modified by the Congress alone; also that an Act of Congress in itself was "constitutional" and not subject to interpretation by the Supreme Court. Furthermore, they attempted to maintain that the Salvadoran Constitution does not grant any powers to the Supreme Court with respect to legislative action. I remarked with respect to this observation that I had noticed in Salvadoran legislation that the preamble generally contained a clause stating that the opinion of the Supreme Court had been heard with respect to the proposed legislation and that

it was to be presumed that legislation thus reviewed in advance by the Supreme Court would be in conformity with the Constitution, and it was admitted that this is true—but that it would not absolve the Government from the Constitutional penalties previously mentioned.

At the conclusion of the interview I stated to the President that I believed the situation was that the Salvadoran Government had undertaken and would continue the blocking and sale of enemy alien firms, but that it had come to be of the opinion that its action in this respect was unconstitutional and that a means would be sought to overcome this difficulty. I stated again that insofar as a plebiscite or modification of the Salvadoran Constitution was concerned, the matter was definitely one of the exclusive sovereign concern of El Salvador in connection with which the American Embassy could assume no responsibility of any kind. The President stated that that was the situation.

Respectfully yours,

WALTER THURSTON

S40.51 Frozen Credits/10824

The Secretary of State to the Ambassador in El Salvador (Thurston)

No. 259

WASHINGTON, July 27, 1943.

SIR: The Department has received your despatch No. 498, June 26, 1943 in which you describe a conversation which you had with the President of El Salvador and other Salvadoran officials with regard to the possibility of the liquidation, pursuant to proposed Salvadoran legislative action, of Axis interests on the Proclaimed List.

The Department is gratified to note that you were careful to state to the President that the amendment of the Salvadoran Constitution is a matter to which the Embassy could not be a party. The Department considers that questions of the amendment and interpretation of the Salvadoran Constitution are internal matters regarding which this Government and its officials should under no circumstances express an opinion. While the Department wishes to see the Washington and Rio de Janeiro economic warfare resolutions⁴⁵ implemented by appropriate legislation in the respective American Republics, and wishes those Republics which have hitherto failed to enact such legislation to be discreetly urged by our missions to do so, it does not wish United

⁴⁵ For text of the resolutions of the Conference held at Washington June 30–July 10, 1942, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942). For correspondence concerning this Conference, see *Foreign Relations*, 1942, vol. v, pp. 58 ff. For text of the resolutions of the Third Meeting of Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15–28, 1942, see Department of State *Bulletin*, February 7, 1942, pp. 117–141. For correspondence concerning this Conference, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.

States officials to insist upon the enactment of specific legislative provisions. Moreover, in view of the satisfactory progress which has been made in the development of economic warfare controls in El Salvador, there does not appear to be any pressing practical necessity for such insistence. The foregoing, of course, is not intended to interfere with the excellent informal cooperation and consultation with Salvadoran officials which has been mutually sought, concerning the administration of the Salvadoran controls now in effect.

You are requested to bring the Department's instructions to the attention of the members of the Embassy staff.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

740.16112 RP/5

The Ambassador in El Salvador (Thurston) to the Secretary of State

No. 1080

SAN SALVADOR, December 16, 1943.

[Received December 21.]

Subject: Developments in connection with sale of Proclaimed List firms in El Salvador.

SIR: I have the honor to refer to the Embassy's strictly confidential despatch No. 966 of November 16, 1943,⁴⁶ with this same heading, and to report that Dr. Rodrigo Samayoa, Minister of Finance, at the suggestion of President Martínez, has informed the Embassy that he is preparing a list of Germans still residing in El Salvador and will submit it to the Embassy with a request that all of these persons be included in the Proclaimed List. Dr. Samayoa was advised that it will not be possible for us to request the listing of such persons unless there is sufficient proof available in each instance to warrant such action on our part.

[Here follows a brief report on the possibilities of a constitutional amendment that would authorize wartime expropriation by the Salvadoran Government of enemy alien property in El Salvador.]

Respectfully yours,

WALTER THURSTON

⁴⁶ Not printed.

INFORMAL ASSISTANCE BY THE DEPARTMENT OF STATE TO REPRESENTATIVES OF THE HOLDERS OF SALVADORAN BONDS UNDER THE LOAN CONTRACT OF JUNE 24, 1922 ⁴⁷

816.51/1118

The Bondholders Protective Committee for the Republic of El Salvador ⁴⁸ to the Secretary of State

NEW YORK, December 23, 1942.

[Received December 26.]

SIR: The Committee desires to call your attention to the fact that the Republic of El Salvador has published, in the *Diario Oficial* of November 30th last, a Decree providing for the repatriation of approximately \$1,523,000 principal amount of various issues of its foreign bonds at a price of approximately 20% of par value. The Committee has reason to believe that the parties who sold these bonds to the Government acquired them at an average price of not much over 10%.

In view of the fact that the Republic has failed to provide funds to meet the service on its foreign debt since January 1st, 1938, on the grounds that the general economic situation of the country has prevented the Government from complying with these obligations, the Committee is seriously concerned at the implications of this proposal.

It is the opinion of this Committee that any funds the Republic may have available for debt payments should be first applied to the liquidation of the interest due, and that the diversion of funds for extinguishing obligations of this character when they have been in default for many years, and as a consequence selling at very low levels, constitutes a reprehensible practice and evidences a lack of good faith on the part of the Republic towards its creditors.

Some 3000 bondholders represented by this Committee have shown considerable patience over a 4-year period in the belief that the Salvador Government would eventually carry out the repeated assurances it has given them to the effect that service on the foreign debt would be resumed the moment its financial situation permitted the Government to do so. From the facts presented herein it would appear that the confidence of the bondholders in the assurances of the Salvador Government has not been warranted.

The Committee considers the facts presented herein constitute a violation of the Loan Agreement of 1922,⁴⁹ with respect to which the

⁴⁷ For previous correspondence, see *Foreign Relations*, 1938, vol. v, pp. 561 ff.

⁴⁸ With headquarters at 30 Broad Street, New York, N.Y.

⁴⁹ For correspondence concerning the loan contract entered into by the Government of El Salvador and Mr. Minor C. Keith on June 24, 1922, see *Foreign Relations*, 1922, vol. II, pp. 885 ff. For details concerning plans for proposed Departmental cooperation with bankers in the undertaking of foreign loans, see *ibid.*, vol. I, pp. 556-558.

Department of State undertook certain responsibilities, and of the Readjustment Agreement of 1936.⁵⁰

It, therefore, is submitted that said facts fully warrant representations on your part to the Government of El Salvador as constituting a breach of faith to the citizens of the United States and to the British holders of these bonds.

Respectfully submitted:

JOSEPH CARTER
Secretary

816.51/1147

Memorandum by the Assistant Chief of the Division of the American Republics (Cabot) ⁵¹

[Extracts]

[WASHINGTON,] April 8, 1943.

I have examined with some care the files relating to the Salvadoran loan negotiations of 1921-1923. . . .

(4) The State Department was copiously consulted during the negotiations. It acceded to the inclusion in the final contract of two provisions which involved it:

(a) A provision by which in the event of default the Fiscal Agent should select, with the concurrence of the Secretary of State, two individuals, one of whom should be appointed by El Salvador as Collector General. (Article 19 of the contract of June 24, 1922)

(b) Should any disagreement, question or difference arise regarding the interpretation or performance of the contract, it was to be referred to the Chief Justice of the United States, through the Secretary of State, for determination, decision and settlement. (Article 9)

At the time of the original default on this loan El Salvador's financial position was such that the establishment of a Customs receivership to enforce service on the loan would have resulted in chaos. Moreover, we did not recognize the *de facto* Government of El Sal-

⁵⁰ For text, see El Salvador, *Readjustment Agreement between the Republic of El Salvador and Bondholders' Protective Committee for the Bonds of the Republic of El Salvador and Council of Foreign Bondholders of London, Regarding the Loan Contract of 1922 as amended by Agreements dated January 5 and September 28, 1923, April 27, 1936*, (n.p., n.d.) ; or Foreign Bondholders Protective Council, Inc., *Annual Report, 1936* (New York, 1937), p. 373. For correspondence on this subject, see *Foreign Relations, 1936*, vol. v, pp. 572 ff.

⁵¹ Addressed to Philip Bonsal, Chief of the Division of the American Republics, and James Wright of that Division, to the Associate Adviser on International Economic Affairs (Collado), and to the Chief of the Financial Division (Livesey).

vador. The situation was further complicated by the formation of a private Bondholders Protective Committee which, while zealous in seeking readjustment on behalf of the bondholders, showed even more zeal in obtaining large personal profits. However, so far as I can ascertain, the provision by which any controversy which may arise in connection with the original loan contract is to be referred through the Secretary of State to the Chief Justice for his decision remains unmodified in law and practice. It seems to me that the recent arrangement made by the Salvadoran Government with the Banco Occidental is a dispute of the kind originally contemplated by this provision of the loan contract. Unlike the establishment of a Customs receivership, it appears questionable whether reference of such a dispute to the Chief Justice could justly be considered a derogation of Salvadoran sovereignty. The fact that a request for such reference would be highly embarrassing both to the Government of the United States and to that of El Salvador would not appear to relieve them of their respective moral and legal obligations to the bondholders. At a moment when El Salvador is financially able to resume payments on its debt, and we are no longer embarrassed by the probability that any representations on our part would redound to the personal profit of the Protective Committee as well as to the protection of the bondholders' interests, would it be contrary to the long range interests of the United States if representations were now made, in view of the unethical act of a friendly country, for the protection of innocent American bondholders?

Many of these bondholders bought their bonds in good faith, in the belief that the role which the Department had voluntarily agreed to assume would protect them against loss. They have nevertheless suffered heavy losses. For good reasons of policy, the Department sidestepped the role it had previously accepted; but also it has taken no effective action in connection with acts of the Salvadoran Government prejudicial to the bondholders' legitimate interests. By this Government's hostile attitude towards the Protective Committee and by lending the Salvadoran Government Exim funds we may have prejudiced them further. Every concrete excuse for failing to fulfill our moral obligation to the bondholders seems now to have vanished. Moreover, in view of the reference in the recent letter of the Protective Committee to the inactivity of the Department, it would not be surprising if we began to receive complaints from bondholders and their Congressmen. I therefore favor sending Mr. Thurston a somewhat more vigorous version of the draft instruction I recently prepared for him directing him to make informal representations regarding this matter.

816.51/1137

The Secretary of State to the Minister in El Salvador (Thurston)

No. 124

WASHINGTON, April 19, 1943.

SIR: The Department refers to its telegram no. 56 of March 25,⁵² informing the Legation of the prospective dissolution of the El Salvador Bondholders Protective Committee, and to the Legation's despatch no. 231 of March 27.⁵²

As the Department intimated in its instruction no. 1044 of December 8, 1942,⁵² it was disturbed at the transaction described in the Legation's despatch no. 3002 of November 3, 1942,⁵² by which the Salvadoran Government acquired a considerable block of its defaulted bonds at a heavy discount through a private arrangement with a Salvadoran bank. Since then the Salvadoran Government has rejected the protests of the British Chargé d'Affaires and the Protective Committee regarding this transaction. The Committee, which had been legally empowered by a great majority of the bondholders to represent their interests, has decided to dissolve. These events have accentuated the Department's misgivings regarding the manner in which the interests of United States holders of Salvadoran bonds are being affected. The Department believes that any funds available for application to Salvadoran foreign indebtedness should first be applied to the resumption of interest payments on this debt, rather than to the repatriation at heavy discounts of bonds which are in complete default and hopes that the Salvadoran Government will follow this course in the future. Moreover, the purchase of a block of bonds from one holder at a price considerably above the then existing market, and the payment of interest on this purchase, would appear to discriminate against the other holders.

The Department has also noted that the foreign exchange position of El Salvador has improved very materially as a result of the increasingly favorable Salvadoran trade balance. This favorable balance has been largely derived from the sale of Salvadoran coffee to the United States at the profitable prices brought about by the Inter-American Coffee Agreement.⁵³ Although the budgetary position of the Salvadoran Government (as shown by the Legation's reports) is not strong, the general economic situation of the country appears to be sufficiently sound to warrant consideration being given to the resumption of service, at least in part, on its outstanding foreign obligations. It should not be impossible, under the existing economic conditions in El Salvador, for the Government to raise the necessary funds for this

⁵² Not printed.

⁵³ For text of this agreement, see Department of State Treaty Series No. 979, or 56 Stat. (pt. 2) 1345.

purpose. Should a satisfactory arrangement be reached for the resumption of service on this debt, there would then of course be no objection to further non-discriminatory repatriation of the bonds.

The Legation is of course aware of the provisions affecting the Secretary of State in the loan contract of June 24, 1922, to which the Department consented. These provisions not only provided for the nomination by the Fiscal Agent, with the concurrence of the Secretary of State, of two individuals, one of whom should be appointed by El Salvador as Collector General of Customs in the event of a default, but also for reference to the Chief Justice of the United States, through the Secretary, of any disagreement regarding the contract. Many United States investors doubtless purchased Salvadoran bonds on the strength of these provisions, as inquiries from such investors have indicated. The Department is concerned at the possibility that a further effort may now be made by bondholders or the Fiscal Agent to invoke these provisions, and desires to forestall any such contingency.

In view of the facts set forth above, the Department has considered it appropriate to re-examine its position with respect to the existing default on El Salvador bonds held by United States citizens. Unless you perceive objection thereto, you are requested to bring the considerations set forth above discreetly and informally to the attention of the appropriate Salvadoran officials. You are authorized in this connection to consult with Mr. Renwick.⁵⁴ You may stress the fact that in spite of the change in this Government's policy which has occurred since 1922, it would be embarrassing both to the United States and to El Salvador if the bondholders should now invoke the provisions of the 1922 loan contract, especially if this should come to be a matter of public discussion in the United States and elsewhere. You may point out that your Government wishes to prevent a situation arising which might be prejudicial to the credit of El Salvador. You should then urge that the Salvadoran Government seek an early opportunity to make an arrangement with the bondholders or their representatives for the resumption of service on its debt, or propose a plan of equitable readjustment. You should not make any communication in writing to any Salvadoran official in connection with this matter.

The Department appreciates that conversations may now be in progress either between Salvadoran officials and Mr. Renwick or between the Salvadoran and the British Governments, and you will of course carry out the Department's instructions in the light of the progress

⁵⁴ William W. Renwick, President of El Salvador's Committee of Economic Coordination and representative of the Fiscal Agent under the foreign loan of 1922.

which these conversations may have made. The Department requests that you report to it the result of any discussions which you may have.

Very truly yours,

For the Secretary of State:

A. A. BERLE, JR.

816.51/1148: Telegram

*The Secretary of State to the Ambassador⁵⁸ in El Salvador
(Thurston)*

No. 158

WASHINGTON, May 12, 1943.

SIR: I refer to the Department's instruction no. 124 of April 19, 1943 and to your despatches nos. 323 and 324 of April 28, 1943,⁵⁹ regarding the desirability of resumption of service by El Salvador on its outstanding bonds.

The Department notes that the Salvadoran Government contemplates submitting to the American and British Governments a plan which is now being prepared for adjustment of the debt. You are requested to make it clear at an early opportunity to the appropriate Salvadoran authority that it would be contrary to the Department's policy for it to negotiate a specific plan on behalf of the bondholders. The Department believes that this [is] a matter which primarily concerns the Salvadoran Government and the bondholders, and that it should therefore be discussed directly between the competent Salvadoran officials and the bondholders or their representatives, for example, the Foreign Bondholders Protective Council, Incorporated, 90 Broad Street, New York, with the standing of which the Government of El Salvador is familiar. The purpose of the Department's instruction was merely to make it clear why the Department believed that the Salvadoran Government should seek an early opportunity to initiate discussions with the bondholders or their representatives looking to a resumption of service on the outstanding debt.

You may, in your discretion, should a suitable opportunity offer itself, discreetly point out to the Minister of Finance,⁶⁰ that the Department has never taken any position with regard to the desirability of the establishment or dissolution of the Bondholders Protective Committee. In giving consideration to the Salvadoran default in all its aspects, the Department has naturally taken into account the scope of the legal powers which an overwhelming majority of the bondholders had entrusted to the Committee, and the primary responsibilities which consequently rested upon it.

⁵⁸ The Legation in El Salvador was raised to the rank of Embassy on April 16, 1943, when Walter G. Thurston presented his credentials as Ambassador.

⁵⁹ Despatches Nos. 323 and 324 not printed.

⁶⁰ Rodrigo Samayoa.

For your background information, the Department would not be at all disposed to accept a debt plan such as that described in your despatch no. 283 of April 15, 1943 ⁶¹—in the event that the Minister of Finance was referring to a plan of this nature in informing you that a plan would be submitted to this Government. The Department has consistently declined to become involved in refunding plans for private indebtedness contemplating the use of this Government's funds. On the other hand, there is no reason why the Salvadoran Government should not propose to the bondholders or their representatives some link between coffee prices and the level of service which that Government covenants to maintain on its debt.

Very truly yours,

For the Secretary of State:
A. A. BERLE, JR.

816.51/1155

The American Ambassador in El Salvador (Thurston) to the Salvadoran Under Secretary of Finance (Bustamante) ⁶²

SAN SALVADOR, May 14, 1943.

MY DEAR MR. BUSTAMANTE: You were so good as to inform me, on the occasion of your recent call at the Embassy, that during your impending visit to the United States with the Salvadoran Economic Mission ⁶³ of which you are the Chief, you will take up the question of Salvador's external debt. You expressed the hope that our Government authorities would support your proposals on the subject.

As I said to you then, I am confident that you will receive the most cordial and friendly support on the part of the authorities at Washington in the performance of the tasks that have been assigned to you. I should, however, make it clear that (as you perhaps already know) the policy of the Department of State does not permit it to negotiate specific plans on behalf of bondholders. This is a matter which primarily concerns the Salvadoran Government and the bondholders—and which, in consequence should be discussed directly between the competent Salvadoran officials and the bondholders or their represen-

⁶¹ Not printed; in it the Ambassador described this plan proposed by Hector Herrera, President of the Mortgage Bank of El Salvador, as a proposal (1) that the Governments of the United States and Great Britain become the creditors of El Salvador in lieu of the individual American and British holders of Salvadoran external bonds; (2) that a further modification of the interest and amortization rates on these bonds be made; (3) that the price of coffee be stabilized; and (4) that the processes by which the internal taxes of El Salvador are collected be improved, utilizing therefor the services of Mr. W. W. Renwick (816.51/1143).

⁶² Copy transmitted to the Department by the Ambassador in his despatch No. 370, May 14; received May 18.

⁶³ The Economic Mission was composed of Ramón Arturo Bustamante, Victor C. Barriere (Director General of the Budget), and Francisco Alfredo Mejía (member of the Committee for Economic Coordination of El Salvador).

tatives. In this instance, the matter might properly be taken up with the Foreign Bondholders Protective Council, Incorporated, 90 Broad Street, New York—an organization with whose standing I believe your Government is familiar.

Wishing you a pleasant and successful journey, and with kind regards, I am

Sincerely,

WALTER THURSTON

816.51/1166

Memorandum by the Associate Adviser on International Economic Affairs (Collado) to the Chief of the Finance Division (Livesey)

[WASHINGTON,] June 22, 1943.

MR. LIVESY: Mr. Arturo Bustamante, Under Secretary of Finance of El Salvador, called upon me to explain some of the aspects of the Salvadoran Economic Mission which he heads. He recalled our discussions of last year regarding the Salvadoran public debt and stated that he was authorized to enter into preliminary discussions with the Foreign Bondholders' Protective Council looking towards a definitive settlement. He stated that he had convinced the Minister of Finance and the President⁶⁴ that such a settlement was essential, and although he is not empowered to conclude negotiations, he is empowered to work out an arrangement which he would have to return to El Salvador to confirm. He stated that he was anxious to handle the Salvadoran situation in almost exactly the same terms as the Colombian debt has been handled,⁶⁵ that is, fund the arrears of interest and set new bonds or certificates with an interest rate of perhaps 3%, and a total payment in dollars to be made annually which would include amortization.

[Here follow details on Mr. Bustamante's approaching appointment with Mr. Dana Munro, President of the Foreign Bondholders Protective Council, and a comment, covered by a later document, on the expense of maintaining a fiscal agency.]

EMILIO G. COLLADO

⁶⁴ Maximiliano H. Martínez.

⁶⁵ For correspondence on the Colombian debt, see *Foreign Relations*, 1942, vol. VI, pp. 204 ff.

816.51/1165

*Memorandum of Conversation, by the Assistant Chief of the Division
of the American Republics (Cabot)*

[WASHINGTON,] June 30, 1943.

Participants: Dr. Dana Munro, President, Foreign Bondholders
Protective Council.

Dr. Bustamante, Under Secretary of Finance, El
Salvador.

Mr. Cabot, Department of State.

I took Dr. Dana Munro to call at the Salvadoran Embassy this morning in order that he might discuss with Dr. Bustamante the possible resumption of service on the outstanding Salvadoran foreign bond indebtedness.

Dr. Bustamante presented the following plan to Dr. Munro:

1. Entirely new bonds issued to the present bondholders.
2. Uniform interest of 3% to be paid to the present A, B and C bondholders.
3. Thirty year amortization period.
4. Outstanding unpaid interest to be refunded at 50% of face.
5. The Fiscal Agency to be abolished.
6. The Salvadoran Government to be permitted to buy bonds at will at market prices.

Dr. Bustamante and Dr. Munro discussed this proposition at some length. Dr. Bustamante explained that his Government wished to issue new bonds in order to abolish the Fiscal Agency, which was costing the Salvadoran Government about \$50,000 a year. He pointed out that this could better be applied to service on the bonds. Dr. Munro intimated that this would be advantageous, but pointed out that the Salvadoran proposals would have to be accepted by substantially all of the bondholders before the Agency could be abolished. He then said that the interest rate proposed by the Salvadorans appeared to be rather low, and that he felt that A bondholders would be unwilling to accept the same treatment as that given the B and C bondholders. This seemed to be the point in the Salvadoran plan which he was the least willing to accept. Both he and Dr. Bustamante made all the points they could, most of which were obvious, to support their respective theses. Eventually Dr. Bustamante said that he would send Dr. Munro a memorandum explaining in detail the Salvadoran Government's proposals. They are planning to meet again in New York or Princeton next week.

No mention was made in the talk of connecting debt service with coffee prices. I refrained from any comment whatsoever in the course of the discussions.

816.51/1157

The Secretary of State to the Chargé in El Salvador (Gade)

No. 309

WASHINGTON, September 1, 1943.

SIR: There are enclosed memoranda⁶⁶ prepared by Mr. Dana G. Munro, President of the Foreign Bondholders Protective Council, reporting conversations he had on July 1 and August 7, 1943, with Dr. Arturo Bustamante, head of the Economic Mission recently dispatched to this country by the Government of El Salvador, one of the purposes of which was "to try to arrive at an agreement on the readjustment of the foreign debt of El Salvador, service of which is suspended." Memoranda of conversations on this subject between Dr. Bustamante and members of the Department's staff have already been transmitted to you.

It appears that Dr. Bustamante had not been authorized to negotiate on any basis of settlement other than a uniform 3 percent interest rate applicable alike on the 8 percent bonds of series A, and 6 percent sterling bonds of series B, and the 7 percent bonds of series C, in spite of the specific priority established in favor of the A bonds by the 1922 contract, which has now returned to force through the failure of the 1936 agreement, and in spite of the different interest rates the three series of bonds have received both under the 1922 contract and the 1936 agreement. Under the circumstances little concrete progress toward a new settlement was made, although the cordiality of the conversations appears to have established a favorable basis for the conduct of future negotiations between the Government of El Salvador and the Foreign Bondholders Protective Council.

The Department continues greatly interested in the obtaining of an early adjustment and regularization of the Salvadoran foreign debt. The Department believes it should be possible to devise some proposal within El Salvador's capacity to pay which may be more acceptable to the Council than a uniform 3 percent rate proposal unaccompanied by any provisions offering holders of the higher ranking bonds some compensation for the sacrifice of their prior rights and higher interest rate. It is requested that the Embassy continue to manifest an active interest in this matter and endeavor to promote an early resumption of negotiations with the Council on terms taking into account the special difficulties which the Council has seen in meeting Dr. Bustamante's first proposal.

Very truly yours,

For the Secretary of State:

A. A. BERLE, JR.

⁶⁶ Not printed.

816.51/1174 : Airgram

The Ambassador in El Salvador (Thurston) to the Secretary of State

SAN SALVADOR, September 10, 1943.

[Received September 14—10 a.m.]

A-354. Department's instruction No. 309, September 1, 1943 (file 816.51/1157). I informed President Martínez this morning that my Government had been gratified by Sr. Bustamante's recent visit to the United States in connection with the Salvadoran foreign debt and regretted that the terms he offered to the Foreign Bondholders Protective Council had been such as to make a settlement impossible at that time. I added that we were greatly interested in obtaining an early adjustment and regularization of the debt problem and trusted that there might be an early resumption of negotiations with the Council.

President Martínez immediately assured me that this matter has been receiving the attention of his Government and that it has been decided to have Sr. Bustamante return to the United States in October with full powers to negotiate an agreement. The President implied that Sr. Bustamante will be authorized to propose a settlement on the basis of 50% of the contract interest on each series of bonds.

THURSTON

816.51/1180

*Memorandum by the Assistant Chief of the Division of the American Republics (Cabot)*⁶⁷

[WASHINGTON,] November 22, 1943.

Dr. Bustamante of El Salvador has arrived to negotiate a debt settlement with Professor Dana Munro. He called on me this morning and we held a meeting with Mr. Livesey and Mr. Collado.

Mr. Livesey arranged an appointment for Dr. Bustamante with Professor Munro for 11 a.m., December 1 in New York. It was not possible to start negotiations earlier because Dr. Valdés,⁶⁸ who is accompanying Dr. Bustamante on his mission and who has the required statistical information, has hurt his foot in New Orleans and will not be on hand before that date.

Dr. Bustamante said that he was empowered to offer a settlement along the lines discussed last summer, except that the provision regarding interest would be modified to offer half of the original con-

⁶⁷ Addressed to the Chief of the Division of the American Republics (Bonsal), and to Mr. James Wright, of that Division. Mr. Wright made the following comment in the margin: "We should nail this down."

⁶⁸ V. Manuel Valdés, Central Reserve Bank employee.

tractual rates on the three series of bonds. I certainly trust that Professor Munro will accept these terms, but I fear that we may have some difficulty with the British in view of the fact that the Salvadoran proposal would reverse the relative treatment of the "B" and "C" series bonds by comparison with the 1936 settlement. Dr. Bustamante appeared fully determined to effect a settlement. He mentioned the fact that special taxes were being imposed to provide for the debt service and that the major item, an increased coffee tax which should yield about \$1,500,000 per annum at present prices, had already been enacted. Even making full provision for the proposed interest, and even allowing for a substantial rise in the price of the bonds (now about 40 according to Dr. Bustamante) upon the consummation of the settlement, this should mean a very substantial debt retirement every year so long as the present coffee situation prevails. It should also have the happy effect of retarding inflationary trends in El Salvador.

816.51/1188

*The President of the Foreign Bondholders Protective Council
(Munro) to the Salvadoran Under Secretary of Finance
(Bustamante)*⁶⁹

PRINCETON, N.J., December 24, 1943.

MY DEAR SEÑOR BUSTAMANTE: At our conference yesterday you asked me to give you a memorandum of my understanding of the purport of our recent conversations regarding the resumption of service on the dollar bonds of El Salvador.

As I understand it, the Government of El Salvador proposes to pay interest on the dollar and sterling bonds at present outstanding at one-half of the rates fixed by the contract of 1922. The Government would provide a minimum of \$800,000 U.S. Currency per annum for interest and amortization on the A, B and C bonds now outstanding, not including those which have been or are being purchased by the Government. So much of this sum as was not needed for interest service would be used for the purchase of bonds in the market, or by drawings at par if the bonds sold over par, all bonds so purchased to be cancelled. I also understand that the Government plans to use the proceeds of the new coffee export tax exclusively for the service of its now outstanding debts, so that a considerable sum would be available for additional amortization in years when coffee prices were good. On the other hand it would be stipulated that amortization in excess of contractual requirements in any given year might be taken into account in calculating amortization requirements in subsequent years.

⁶⁹ Received by Mr. Bustamante in Washington.

45% of such portion of the \$800,000 annual service fund as was available for amortization would be applied to the retirement of the new 4% bonds and 30% to the retirement of the new 3½% bonds. All bonds would be retired within thirty years from January 1, 1944.

The back interest on bonds which did not receive payments under the 1933⁷⁰ and 1936 plans, for the period when payments were being made under these plans, would be paid in cash at the rates provided in the plans. Back interest on all of the dollar bonds, from the time when payments under the 1936 plan ceased, would be satisfied by the issue of new 3½% bonds to an amount equal to one-half of the arrears calculated at the rates of the 1922 contract.

Outstanding scrip would be paid in cash at fifteen per cent of the face value.

The new plan would become effective as of January 1, 1944. The registration requirements of the Securities and Exchange Commission might make it impossible actually to make an offer to the bondholders by that date but the new bonds would in any event be dated January 1, 1944.

The bondholders accepting the plan would agree to the abolition of the office of the Fiscal Agent.

I am authorized to say that the Council would recommend that the holders of the dollar bonds accept a settlement along the above lines. As I told you, the Council is not authorized to negotiate for the holders of the sterling bonds. I have, however, informed the President of the British Council of Foreign Bondholders of the tenor of our conversation, since you requested me to do this.

In cases where the Council negotiates and recommends a permanent settlement it requests the debtor government to include in the law or decree authorizing the resumption of service a provision instructing the Government's paying agents to deduct and remit to the Council, from the first monies paid to each bondholder, a sum equal to one-eighth of one per cent of the original face value of his bonds, or \$1.25 per thousand dollar bond.

Very sincerely yours,

DANA G. MUNRO

⁷⁰ A temporary agreement signed *ad referendum* April 5; final draft signed May 6, 1933. For text, see *Diario Oficial*, May 20, 1933; p. 1021.

GUATEMALA

RESTORATION TO GUATEMALA OF THE DEFENSE SITE AT PUERTO BARRIOS AND THE TRANSFER OF ITS ARTILLERY INSTALLATIONS

S14.24/449

The Chargé in Guatemala (Drew) to the Secretary of State

No. 3798

GUATEMALA, April 13, 1943.

[Received April 19.]

SIR: I have the honor to refer to my airgram No. 206 of April 8, 5 pm, 1943,¹ transcribing the text of a communication from the Commanding General of the Panama Canal Department² with regard to the proposal to transfer to the Guatemalan Government the defense installations in Puerto Barrios and to withdraw our forces from that port.

On December 21 General Brett paid a courtesy call on President Ubico. In the course of the conversation President Ubico proposed the replacement of certain United States forces by Guatemalan troops. It has now been decided by our Military Authorities that the artillery installations at Puerto Barrios can be turned over to the Guatemalans and that there is no longer any need to continue our detachment at that point.

Lt. Colonel Glenn Frum, G. S. C., representing General Brett, came to Guatemala to discuss the proposed withdrawal of our forces. In consultation with the Commanding Officer of the local Army Base³ it was agreed that it would be necessary to refer to Washington certain aspects of the proposed transfer, and consequently, no discussions of the subject have been held with the Guatemalan authorities. It is not doubted, however, that they will accept our proposal, if satisfactory financial arrangements can be made.

The Legation's despatch No. 2901 of May 27, 1942, transmitted the text of the Guatemalan Foreign Office note dated May 26,⁴ granting permission for the installation of an artillery battery and the accompanying military detachment at Puerto Barrios. In addition, reference is made to the Puerto Barrios installation in the Air Base Agreement which was concluded at the time of the signature of the

¹ Not printed.

² Gen. George H. Brett.

³ Col. Lauth, Commander at Puerto Barrios.

⁴ Neither printed.

Lend-Lease Agreement.⁵ It is assumed that it will be considered desirable to effect an exchange of notes with the Guatemalan Government terminating the understanding contained in the documents referred to.

It will also be necessary to provide through the customary channels for the transfer to Guatemala under the Lend-Lease Agreement of the artillery installations now in Puerto Barrios. It is not known whether the charge for this equipment will be part of the three million dollars of equipment which we have agreed to furnish Guatemala without charge, or, in the event that this sum has already been obligated by Guatemalan requests, whether it will then be sold to Guatemala as part of the additional amount of two million dollars of equipment established in the Lend-Lease Agreement. In the latter event it is assumed that the price to be fixed will take into consideration the fact that the equipment is not new and that Guatemala will also be entitled to a reduction of 40% from the scheduled price of the equipment.

It is recommended that we transfer without cost to the Guatemalan Government all the installations and equipment of a fixed nature as contemplated in numbered paragraph 4 of the note of November 16, 1942,⁶ in view of the fact that such property would in any event accrue to the Guatemalan Government upon our withdrawal from Puerto Barrios after the war. The proposed withdrawal from Puerto Barrios will undoubtedly establish a precedent for our future withdrawal from the base at Guatemala City and it is suggested that our arrangements be worked out with that in mind. If we are to derive full benefit from this gesture we should nevertheless not remove from our installations at Puerto Barrios any material or equipment which the Government of Guatemala would feel should properly be included in the transfer. Both Lt. Colonel Frum and Colonel Lauth, Commander of the local Base, are in agreement with this recommendation.

President Ubico is understood to have suggested to General Brett that a small training cadre composed of the requisite number of United States Army personnel be retained at Puerto Barrios for the period necessary to train the Guatemalan detachment which will take over our installations there. It is assumed that the War Department will wish to have adequate provision for that purpose included in the suggested exchange of notes with the Guatemalan Government.

I am confident that the withdrawal of our forces from Puerto Barrios will be appreciated by the Guatemalan Government as a

⁵ For correspondence concerning these agreements signed November 16, 1942, see *Foreign Relations*, 1942, vol. VI, pp. 433 ff.; for text of the Air Base Agreement, see *ibid.*, p. 448, and for text of the Lend-Lease Agreement, see *ibid.*, p. 444.

⁶ Note No. 337, from the American Minister in Guatemala to the Guatemalan Minister for Foreign Affairs, *ibid.*, p. 443.

gesture of cooperation on our part and will also have a helpful psychological effect on the people of Guatemala.

There is some fear in Guatemala and perhaps in other countries of Latin America where we maintain military detachments, that our forces will not be withdrawn after the war, a fear which is doubtless held even by many sincere friends of the United States. It is believed that our withdrawal from Puerto Barrios, while of no major strategic importance, should help to counteract this apprehension. I have suggested to Lt. Col. Frum that General Brett might wish to arrange an appropriate ceremony on the occasion of our transfer of the Puerto Barrios installations to Guatemala and that he might be willing to come to Guatemala to attend the ceremony. The War Department might consider it desirable to give suitable publicity to the transfer because of the psychological factor which I have mentioned.

Lt. Colonel Frum informs me that he is submitting a report to General Brett on this subject on his return to the Canal Zone tomorrow and I assume that an appropriate communication will be forwarded to the War Department.

I shall await the Department's instructions.

Respectfully yours,

GERALD A. DREW

814.24/462 : Airgram

The Secretary of State to the Ambassador in Guatemala (Long)

WASHINGTON, May 28, 1943—10:15 a. m.

447. Your A-255, May 14, 6 p. m.⁷ The Department's instruction no. 1689 of May 8⁸ was transmitted prior to the receipt of your despatch no. 3798 of April 13.

Immediately following its receipt, the latter was referred to the War Department which now comments as follows on those points raised in your despatch which have not already been dealt with:

"The equipment located at Puerto Barrios which is to be transferred to Guatemala under Lend-Lease would be charged against the 3 million dollars worth of equipment which Guatemala may receive without charge. In setting a value on this equipment, due allowance will be made for its used condition.

"The transfer to Guatemala of the fixed installations and facilities at Puerto Barrios concurrently with the transfer of the above equip-

⁷ Not printed; it was addressed to the Department by the Chargé in Guatemala (Drew). Ambassador Long's assumption of duties was reported in telegram No. 244 of May 19 (123 L 851/381).

⁸ Not printed; it transmitted for the Embassy's information a memorandum dated April 14 from the War Department expressing the opinion, shared by the State Department, that the transfer of military equipment from Puerto Barrios should involve no additional negotiations or changes in existing agreements (814.24/443, 472½).

ment, is a matter which, it is felt, should be arranged to the mutual satisfaction of the Guatemalan authorities and the Commanding General, Caribbean Defense Command. No difficulties in this respect are anticipated.

"The retention at Puerto Barrios of a training cadre to instruct the Guatemalan troops can be similarly arranged. No need is seen for an exchange of notes in this connection, as suggested by the *Chargé d'Affaires*.

"In general, the Commanding General, Caribbean Defense Command is authorized to make all necessary arrangements with the Guatemalan authorities in this matter, and has been instructed to inform the War Department of his plans when they are complete. Your Department will be further advised in this connection when these plans are received."

HULL

811.24514/18

The President of Guatemala (Ubico) to President Roosevelt

[Translation]

GUATEMALA, August 27, 1943.

MY VERY ESTEEMED MR. PRESIDENT: Your Excellency is aware that the Government of Guatemala, in fulfillment of international obligations and as a pleasant duty of friendship and cooperation toward the United States of America, has placed all its aid and its resources at the service of the common war effort, within the limit of its means.

As a part of that cooperation it viewed with pleasure the establishment by military forces of the United States on bases on Guatemalan territory, among them one (which was) indispensable for the defense of the Atlantic Coast of the country and of its principal way of access: Puerto Barrios.

At the same time, Guatemalan troops have been perfecting their training to the point that, with the necessary efficiency, they have been able to take charge of the base in Puerto Barrios with its installations and military equipment, which they have received the 24th of the present month from the hands of the United States forces in a solemn ceremony which emphasized the mutual sympathy and friendship existing between the two armed forces.

For this reason I have the honor to express to Your Excellency the satisfaction with which, at a moment of great peril for America, the valued aid of the forces of the United States was accepted, and the gratification with which the Government and the people of Guatemala have received the generous delivery of such important military material.

I have the honor to express to Your Excellency my cordial salutations and the assurances of my high esteem, with which I subscribe myself, your affectionate friend,

JORGE UBICO

AGREEMENT BETWEEN THE UNITED STATES AND GUATEMALA RESPECTING THE DETAIL OF A MILITARY OFFICER TO SERVE AS DIRECTOR OF THE POLYTECHNIC SCHOOL OF GUATEMALA

[For text of the agreement, signed at Washington July 17, 1943, see Department of State Executive Agreement Series No. 329; or 57 Stat. (pt. 2) 1011.]

INTEREST OF THE UNITED STATES IN THE DISPOSITION OF AXIS PROPERTIES AND THE PURCHASE OF COFFEE FROM PROCLAIMED LIST PLANTATIONS IN GUATEMALA

740.00112A European War, 1939/25496a

The Secretary of State to the Chargé in Guatemala (Drew)

[Extract]

No. 1550

WASHINGTON, February 17, 1943.

The Secretary of State advises that it is the desire of the Department to formulate as soon as possible a definite program for dealing with the 1942-43 crop of Proclaimed List Guatemalan coffee, and, if possible, to secure in this connection the adoption by the Guatemalan Government of legislation implementing more completely Resolution VII of the Washington Conference⁹ which contemplates the complete elimination of the ownership of business properties and enterprises by persons on the Proclaimed List.

The Department feels that more effective results toward such end will be achieved if the initiative for the formulation of a definitive program were left, as far as possible, to the Guatemalan Government itself.

Any program formulated, either with respect to a broad implementation of Resolution VII or to a specific program for dealing with the 1942-43 Proclaimed List coffee crop, should take into account the following considerations:

1. This Government has consistently maintained the position that the sanctions of the Proclaimed List must be upheld to the fullest extent compatible with the exigencies of the local situation. This Government is nevertheless again prepared to permit the importation of Proclaimed List coffee to fill the 1943 quota, but coffee produced on non-Proclaimed List *fincas* must be given preference. In this connection, the Department is informed that the non-Proclaimed List coffee production will nearly fill the 1943 quota. For the Legation's

⁹ For text of Resolution VII, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942), p. 19. For correspondence concerning the Conference, held at Washington June 30-July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff.

information, it is the Department's position that the 20 percent agreement embodied in the 1941-42 program ¹⁰ does not necessarily constitute a precedent for a 1942-43 program. Further, the United States War Department will not be permitted to purchase additional Proclaimed List non-quota coffee as long as non-Proclaimed List coffee can be obtained elsewhere and, considering present Army stocks, it appears that enough of the latter coffee can be obtained for foreseeable needs.

2. The only fully satisfactory and permanent solution of the problem of how to deal with the 1942-43 Proclaimed List coffee crop would seem to be through the effective elimination of all ownership interest of Proclaimed List nationals in business enterprises and properties. If the *fincas* now owned by undesirable persons were vested by the Guatemalan Government or transferred to desirable parties, this Government could then, consistently with its Proclaimed List policy, permit the importation of coffee produced on *fincas* formerly owned by Proclaimed List nationals as quota coffee. Not only would the quota problem thus be solved but this Government might well be interested in arranging for purchases of non-quota coffee as heretofore.

3. A program for eliminating completely all ownership interests of Proclaimed List nationals in business enterprises would effectively implement Resolution VII and would thus further the joint policy of the respective governments of the Western Hemisphere of strengthening hemispheric defense. The retention of ownership by persons on the Proclaimed List involves the danger that such persons may still be able to assert some control over present operations of their businesses and leaves a present expectancy to such persons which may enable them to continue to assert an undesirable influence in local affairs. If a satisfactory plan were developed and effectively implemented for eliminating such ownership, this Government would be prepared to delete from the Proclaimed List the businesses of Proclaimed List nationals in Guatemala who were subjected to the plan. In addition, this Government would review the Proclaimed List for Guatemala with a view to deleting therefrom, as soon as such a plan was under way, persons and firms who have been guilty of only minor undesirable acts, such as trading with, and isolated cloaking transactions on behalf of, Proclaimed List nationals.

4. It is realized that the adoption of such a program by the Guatemalan Government might result in the loss of the present \$4 coffee tax, but since the entire revenues from the *fincas* would, if they were

¹⁰ This understanding with the United States Government made it possible for Guatemala to fill its export quota under the Inter-American Coffee Agreement of November 28, 1940 (Department of State *Bulletin*, November 30, 1940, pp. 482-488), by drawing upon limited quantities of coffee grown on Proclaimed List properties. See *ibid.*, November 15, 1941, p. 388.

vested by the Government, accrue to it, there would be, as a practical matter, no loss of revenue. Even upon a transfer of the *fincas* to desirable persons, the proceeds of the sale or a part thereof could be made available to the Government through investment of the proceeds in bonds or through taxation. Thus the injury to the local economy would be held at a minimum and there would be no loss in value of the *fincas* themselves.

The Legation will note that the considerations set forth above approach the problem of a more complete implementation of Resolution VII through the specific problem of how to deal with the 1942-43 coffee crop. The question could, of course, be raised in exactly the opposite manner, that is by discussing the broad problem of the desirability of implementing more completely Resolution VII without reference to this year's coffee crop (although the specific problem would probably arise in the course of any discussions).

The Legation is authorized in its discretion to bring the foregoing matters and considerations to the attention of the appropriate Guatemalan authorities in such manner as it deems most appropriate to attain the results desired. It is realized that specific problems will arise in connection with the adoption of any far-reaching program, but if the Guatemalan Government proves willing to take action, these can be dealt with as they arise. As noted above, the Department desires the initiative for the formulation of a definitive program be left, as far as possible, to the Guatemalan Government itself. The Legation is requested to keep the Department fully informed of any discussions held and the results thereof.

740.00112A European War 1939/26961

The Chargé in Guatemala (Drew) to the Secretary of State

No. 3679

GUATEMALA, March 9, 1943.

[Received March 13.]

SIR: I have the honor to refer to the Department's instruction No. 1550 of February 17 and telegram No. 83 of February 20.¹¹ A preliminary reply was contained in the Legation's telegram No. 100 of March 4, 1943, 3 p.m.¹²

The Department's instruction referred to as well as other communications addressed to the Legation indicated that no satisfactory permanent solution of the problem presented by the disposition of coffee grown on Proclaimed List *fincas* can be reached until such time as the Guatemalan Government formulates a plan for eliminating

¹¹ Latter not printed.

¹² Not printed.

Axis interest in these properties. The Minister for Foreign Affairs ¹³ has on several occasions said quite definitely that the Government of Guatemala fully realizes the danger of permitting such a large portion of the national economy to fall into hands of any single nationality and that it is its firm intention to effect the nationalization of enemy alien properties. Dr. Salazar stated that he had given this matter serious study over a long period of time and as long ago as October 1942 had submitted to President Ubico a plan which he had prepared. He explained that only recently it had come to his attention that this document had been lost in the President's office but indicated that arrangements will be made promptly to bring it to the President's attention.

Licenciado Salazar explained that his proposal was for the Government to take over all enemy-owned property without, however, making direct compensation to the owners. In order to conform to the Constitutional prohibition on expropriation without compensation he proposed to set up against the German Government a claim for direct and indirect damages arising out of the war which would at least offset the actual value of the properties to be expropriated. He said that it was his hope that Guatemala would have this problem settled before the peace conference at the end of the war.

From conversations with the Foreign Minister and other Guatemalan officials it is my impression that the Government has not settled on any definite plan for the actual operation and administration of such properties. Several officials have expressed the opinion that the Government would not be competent to operate them although no satisfactory alternate plan has been mentioned.

It has been apparent from various conversations with the Foreign Minister that the problem of the disposition of the CAPCO ¹⁴ properties, which, as the Department is aware, is now in the process of negotiation, is closely involved with the Government's plan for nationalization of other enemy property. It is apparently the Government's view that it will be necessary to set up some quasi-governmental agency to operate CAPCO properties with which the remaining properties can be integrated.

While there are reasonable expectations that the CAPCO problem will be settled in the near future the Foreign Minister has indicated

¹³ Carlos Salazar.

¹⁴ Central American Plantations Corporation, organized under the laws of Delaware. The Alien Property Custodian, acting in behalf of CAPCO, at this time was negotiating a contract, signed April 19, 1943, with the Guatemalan Government whereby all of the physical assets of the Corporation in Guatemala consisting primarily of coffee plantations and their equipment would be transferred to Guatemala. In return, Guatemala would assume certain indebtedness of the Corporation and grant to CAPCO a 30-year right to utilize one of the plantations for cinchona production. A majority of shares of CAPCO common stock were owned at this time, directly or indirectly, by nationals and residents of Germany.

clearly that the major nationalization plan will require considerable time to be placed in effect in view of the legal technicalities involved in transferring land titles. In a recent conversation he informed me that President Ubico had instructed him to take up with me the situation of the Proclaimed List coffee, pointing out that the Government was concerned with the revenue from the taxation involved as well as the continued operation by the intervention system. I assured the Minister that the problem would receive our sympathetic consideration and in response to his invitation I have informally requested him to obtain detailed information with regard to the status of the accounts of intervened *fincas*.

It is obvious that the proposed nationalization plan will be delayed for some time and in the meanwhile it is anticipated that we will be subjected to increasing pressure from the Government with regard to the disposition of Proclaimed List coffee. According to figures collected by the Commercial Attaché the production of coffee on non-Proclaimed List *fincas* during this crop year appears to be adequate to fill the present United States import coffee quota assigned to Guatemala. The present quota against which shipment can be made amounts to 784,000 quintales, after deducting the total carry-over shipped to the United States and held in Guatemala from the previous crop year amounting to 87,000 quintales. The current crop year is reliably estimated to exceed previous crop years by approximately 10%. If the crop estimates are borne out it therefore appears that no Proclaimed List coffee can move within this year's quota.

As a stop-gap measure it has occurred to me that we might wish to suggest to the Guatemalan Government the possibility of providing by decree for the expropriation of all coffee and other products from Proclaimed List *fincas* until such time as adequate measures for their nationalization can be carried out. In this way the Guatemalan Government would obtain all income from the properties and the interest of the German owners in current production would be eliminated. Such a proposal on our part might well be accompanied by an offer to assist in arranging for the sale of 20% of the global amount of Proclaimed List coffee outside of the quota to an appropriate United States Government agency. By withholding action on our part on the remaining 80% of Proclaimed List coffee the Guatemalan Government would doubtless realize the necessity for expediting their consideration of the nationalization program. From a conversation which I have had with the Minister for Foreign Affairs I am inclined to believe that such a suggestion would be favorably received.

The situation as I visualize it may therefore be stated as follows:

(a) The Guatemalan Government is determined to nationalize enemy alien properties, although this program may be subject to protracted delay.

(b) No definite program will be adopted in any event until the current CAPCO negotiations have been disposed of.

(c) Present estimates are that non-Proclaimed List coffee will be ample to fill Guatemala's present United States coffee quota.

(d) The Legation and the Department will be subject to constant pressure for the disposal outside of the quota of Proclaimed List coffee.

(e) A temporary solution would be offered through immediate expropriation by the Guatemalan Government of all products of proclaimed coffee.

(f) An offer from the United States to facilitate the disposal of say 20% of Proclaimed List coffee until adoption of a vesting procedure or nationalization decree might offer a possible solution.

The Legation will forward to the Department figures on the accounts of the owners of Proclaimed List *fincas* which have been requested through the Minister for Foreign Affairs as soon as received. In addition I hope to have an opportunity during the current CAPCO negotiations to obtain further clarification from the Foreign Minister of his views toward the Government program for the nationalization of enemy-owned property.

Respectfully yours,

GERALD A. DREW

840.51 Frozen Credits/9873

The Chargé in Guatemala (Drew) to the Secretary of State

[Extracts]

No. 3701

GUATEMALA, March 18, 1943.

[Received March 26.]

SIR: . . .

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Agricultural properties of Proclaimed List nationals producing coffee are now directly intervened through the medium of the Department of Intervened Fincas of the Central Bank. Inasmuch as the intervention of the Proclaimed List coffee *fincas* involves some 190 properties and *in toto* represents around 30 percent of the total exportable coffee crop, the magnitude of the operational aspect of the intervivor system and its importance in the economy of the country becomes apparent.

Few industrial concerns figure on the Proclaimed List and as yet no Proclaimed List commercial establishments have been subjected to direct control or intervention by the Government.

While certain measures had been adopted as early as October of 1941, the basic Guatemalan restrictions aiming at control over the economic and financial operations of undesirable persons derive from Decree No. 2655 which was dated December 23, 1941 (published in *Diario Oficial* of January 2, 1942, and text transmitted with Despatch

No. 2463 of January 23, 1942¹⁵) generally known and hereafter referred to as the "Emergency Law". Section 3, Articles 14 to 24 inclusive of this law establishes restrictions of an economic nature. Prohibited activities include all commercial and financial operations with enemy countries; commercial and financial transactions which occur within the country and in which blocked nationals might have an interest, except under Government license; commercial or financial operations and business transactions within the country involving individuals, groups or associations who injure or act inimically toward the defense of the Western Hemisphere. Domestic banks, except under specific license, cannot effect payments, transfers or withdrawals of funds if any of the countries with which Guatemala is at war, or a national of such countries, has an interest in said operations. The deposits, credits and current accounts of nationals of countries at war with Guatemala and of persons figuring in the Proclaimed List of Certain Blocked Nationals are frozen and blocked.

Blocked nationals and also Proclaimed List nationals are, however, permitted to exercise their habitual and ordinary civil occupations as long as they neither contravene the laws, regulations or ordinances of the Republic, nor engage in activities menacing the security of the nation or the integrity of its institutions. The Emergency Law further provides for the supervision, intervention and direct control over any commercial, industrial or agricultural enterprises owned by or administered by blocked or Proclaimed List nationals.

A person or group of any nationality acting as a cloak for a blocked national in any financial or commercial transaction connected with an importation or exportation will be considered as included in the effects of the Emergency Law and in the same status as a blocked national without prejudice to the Executive Power to confiscate the articles involved in such traffic.

The registration in the Registry of Deeds of any transaction involving the real estate or property rights of a blocked national is prohibited, excepting where the real property or property right is transferred by inheritance, legacy or grant *causa-mortis*, or by a court decision based on documental rights originating at least three months prior to the declaration of war. Notaries are forbidden to authorize documents or instruments respecting real property or property rights registered in the name of a blocked national without the specific sanction of the Executive Power.

[Here follows a chronological survey of the various economic and financial control measures promulgated by the Guatemalan Government.]

¹⁵ Not printed.

In respect to the standards for the application of financial and economic controls within the American Republics, as set forth in Resolution No. 5,¹⁶ Guatemala has through its intervention of the coffee properties of Proclaimed List nationals, and in the collection of the special war tax assessed against the exported product of such *fincas*, in effect diverted the largest proportion of the profits that would ordinarily accrue to the Proclaimed List nationals who are subject to these controls. The Central Bank is currently setting aside 1.67 percent of the proceeds derived from the sale of Proclaimed List coffee, and this amount is blocked in the names of the Proclaimed List owners and a further deterrent toward the accumulation of sizeable amounts in the blocked accounts is the fact that in many cases withdrawals are permitted from these funds for the subsistence of the owners, in conformity with prevailing legislation. The percentage mentioned as set aside for blocking represents approximately 0.20 of a quetzal for each quintal of clean coffee sold.

In approaching the objective of eliminating from the economic life of the country the undesirable influence and activity of persons or entities whose activities are, or have been, inimical to the security of the Western Hemisphere, it will be observed that property rights of Proclaimed List nationals still vest in their original owners and no provision has been made whereby the Guatemalan Government may undertake to vest any of these properties. Commercial establishments of Proclaimed List nationals continue to operate and have not been intervened, although their funds are subject to the blocking procedure. The Government has, none-the-less, the power to liquidate inimical enterprises and the desirability of re-nationalizing these properties has been enunciated in the Central Bank's official publication *Revista de la Economía Nacional* (No. 66), (Año VI, June 1942, pp. 12-16).

The influence of the German Colony in Guatemala has, notwithstanding the circumstances that titles have in but few instances been transferred to desirable persons, been definitely weakened under the interventor system. The agricultural properties which are operated under the interventor procedure are managed by an Administrador who is a direct employee of the Department of Intervened *Fincas*. This official resides on the property and is in addition to the Bank's fiscal agent, the Interventor. Former German employees of the *fincas* have been dismissed and the properties are in reality directly operated by the Guatemalan Government through the Banco Central as respects coffee *fincas*, and through the Crédito Hipotecario Nacional for all other intervened properties. Since Guatemala's declaration of war 278 enemy aliens have been deported, 333 Germans have been re-

¹⁶ For text of Resolution No. 5, see Pan American Union, *Final Act of the Inter-American Conference on Systems of Economic and Financial Control*, p. 16.

patriated and at the present writing plans are under way for additional repatriations.

The policy of the Central Bank and the conduct of its interventor system is in the direction of expending as administration and maintenance charges the largest proportion of the proceeds derived from the sale of produce from the Proclaimed List coffee *fincas* so that in reality the blocked accounts are being kept at what may be considered a reasonable minimum. The condition of the *fincas* as a whole was not, according to the Central Bank, as good as was expected in view of the generally accepted hypothesis that Nazi-German efficiency in management and operation was superior to that of Guatemalan nationals. The Germans had not, it is claimed, kept their farms up to Guatemalan standards so that unexpected expenditures have been necessary to put the *fincas* in good shape.

In point of fact, the total amount of the funds blocked in the Central Bank in the name of blocked and particularly of Proclaimed List nationals, while such sums naturally increased from the proceeds derived from the 1941-42 coffee crop, have now diminished to what may be considered a reasonable minimum.

The problem now confronting Guatemala is the orderly disposal of the 1942-43 crop from these intervened Proclaimed List properties.

Respectfully yours,

For the Chargé d'Affaires ad interim:

ARCHIBALD R. RANDOLPH
Acting Commercial Attaché

740.00112A European War 1939/27764 : Airgram

The Secretary of State to the Chargé in Guatemala (Drew)

WASHINGTON, April 7, 1943—4:10 p. m.

A-386. Your A-172, March 26¹⁷ and previous communications with reference to the formulation of a plan for disposing of the current Proclaimed List coffee crop. Also your despatch 3562 of February 2, 1943.¹⁷

The Department has been informed that the War Department is now interested in purchasing through a single contract for use in the United States the entire 1942/43 Guatemalan Proclaimed List coffee crop. This suggestion rests upon the fact that such coffee could be shipped directly to the West Coast, thus obviating the necessity of shipping coffee needed in that area by rail from the East Coast. The War Department has also informed the Department that it is prepared to pay current prices, and that, because of the size of the contract, it would prefer the contract to be handled by a single importer in

¹⁷ Not printed.

this country, probably the same person that handled the War Department's contract last year.

The Department perceives no objection to the purchase of the entire crop through a single contract for Army needs, provided (a) the negotiations for and the execution of such a contract are not permitted to jeopardize the successful conclusion of the formulation of a plan for eliminating any Proclaimed List interest in the coffee along the lines outlined in previous communications and (b) the Proclaimed List is not used as a means of securing better terms for the coffee than would otherwise be obtainable or to force a sale to the Army should the Banco Central desire to sell to other purchasers. In the latter connection it is understood that the War Department has been purchasing its coffee requirements in the open market without preferential treatment.

[Here follow procedural details concerning negotiations for an entire-crop purchase contract, and a discussion of coffee exports to Switzerland.]

HULL

740.00112A European War, 1939/29365

The Minister in Guatemala (Des Portes) to the Secretary of State

No. 3829

GUATEMALA, April 20, 1943.

[Received April 23.]

SIR: In continuation of my telegram No. 187 of April 20, 1 pm, 1943,¹⁸ I have the honor to enclose copy and translation of Guatemalan Foreign Office Note No. 5298 of April 15,¹⁸ with regard to the disposition of coffee produced on Proclaimed List plantations.

The principal emphasis in the Guatemalan note is on the Government's desire to obtain a solution of the problem of the disposition of Proclaimed List coffee and only incidentally gives assurances regarding the participation of the owners in the profits derived from the sale of such coffee. In addition, as pointed out in my telegram, the Government indicates that it would be disposed to increase the present "war tax" on Proclaimed List coffee in the event that higher prices should be obtained this year. The note omits any reference to the Guatemalan Government's intentions with respect to expropriation or vesting of Proclaimed List properties.

In a conversation with the President yesterday he stated that the Guatemalan Government could not constitutionally proceed to expropriation of Proclaimed List properties at the present time but at the Peace Conference his Government would present to the Axis Powers a bill for claims arising from the War which would be in excess

¹⁸ Not printed.

of the value of the Proclaimed List properties. He added that the properties would then be expropriated and that the owners would have to look to the German Government for payment. This present attitude of the President is considered to be less satisfactory than the position previously taken by the Foreign Minister who had indicated that the Government was prepared to proceed promptly with expropriation. The reason for this change in attitude is not known.

The statement of the Guatemalan Foreign Office to the effect that the owners of Proclaimed List properties are receiving minimum benefits from the sale of coffee is borne out by the data which were transmitted to the Department with the Legation's despatch No. 3774 of April 8.²¹ In the event that the Department decides to authorize the importation into the United States of Proclaimed List coffee it is believed that the size of the profits accruing to the owners will be at least as small as for the previous crop year. If the profits are larger than considered desirable it is believed that the Government of Guatemala would be prepared to carry out its suggestion of imposing an increased "war tax" on the sale of Proclaimed List coffee. In fact it is currently rumored that the "war tax" will be increased within the next few days from the present rate of \$4.00 to \$5.00 per quintal.

While the failure of the Guatemalan Government to proceed with expropriation of Proclaimed List properties is a source of disappointment it is not believed that it would be possible at this time to obtain any more satisfactory assurances than contained in the enclosed note and I recommend that I be authorized to inform the Guatemalan Government that sales of the current Proclaimed List coffee crop will be permitted.

Respectfully yours,

FAY ALLEN DES PORTES

740.00112A European War 1939/29553 : Airgram

*The Secretary of State to the Ambassador in Guatemala (Long)*²²

[Extract]

WASHINGTON, May 17, 1943—6:30 p. m.

A-436. Your despatches 3829 of April 20, and 3832 of April 21²³ and previous communications with reference to the current Proclaimed List coffee crop.

²¹ Not printed.

²² The American Legation in Guatemala had been raised to the status of Embassy, and Mr. Boaz Long presented his credentials as Ambassador on May 19, 1943.

²³ Latter not printed.

The Treasury Department has approved, under Executive Order No. 8389, as amended,²⁴ the importation into the United States, and other dealing in coffee of the current year's crop, produced on *fincas* owned by persons on the Proclaimed List. Such approval is based upon the assurances received from the Guatemalan Government with respect to the continuation of the control program and such coffee can, of course, be imported only in accordance with its terms.

It is suggested, however, that, before any notification is given as to the approval of the plan, you arrange for the delivery to you, on as current a basis as possible, of all data (such as a list of all sales and sale prices, administrative expenses with respect to each *fincas*, et cetera) necessary for a determination by you from time to time in the future that the control plan is being adhered to and whether further action would be desirable at any time in order to reduce to a minimum the profits to be credited to the blocked accounts of the Proclaimed List owners of the *fincas*. In view of the difficulties encountered in obtaining such figures this year, you may, in your discretion, wish to obtain written assurances from the Guatemalan authorities that such data will be promptly forthcoming in the future upon request.

In addition, with reference to the proposal of the Guatemalan Government to defer nationalization of Proclaimed List *fincas* until after the war, it is suggested that, in your discretion, you continue to point out the desirability of legislation which will permit more immediate action against the dangerous firms on the Proclaimed List.

As directions with reference to the necessary modal arrangements are requested in your despatch no. 3832 of April 21, the points raised in that despatch will be answered in order:

1. Treasury and the Department are of the opinion that separate Treasury licenses need not be issued, either by you or in this country, permitting each sale of Proclaimed List coffee. You are accordingly authorized to notify all United States persons and firms that, notwithstanding General Ruling No. 11,²⁵ such coffee can now be dealt in and imported into this country without the necessity of obtaining specific Treasury licenses, under Executive Order No. 8389, as amended, and to notify all local persons and firms that they will not be recommended for inclusion on the List if they participate in the purchase of such coffee for shipment to the United States. In order to insure that all prospective buyers will have an equal opportunity to negotiate for and buy such coffee you should take such steps as you may deem advisable to notify all prospective buyers of the approval of the control plan.

²⁴ For the original order, signed April 10, 1940, see 5 *Federal Register* 1400.

²⁵ For text of Ruling No. 11, see U.S. Treasury Department, "General Ruling No. 11 Under Executive Order 8389, as amended, and Regulations Issued Pursuant Thereto, Relating to Foreign Funds Control," in *Documents Relating to Wartime Financial and Property Controls of the United States Government* (Washington, June 30, 1942).

2. The Consulate General is hereby authorized to issue consular invoices covering shipments of coffee produced on *fincas* owned by persons on the Proclaimed List. Such authorization covers the entire current Proclaimed List coffee crop and applies to shipments to private importers in this country, as well as to any shipments intended for Army use. Such consular invoices are to be issued only when the Consulate General is satisfied that the sale is being made pursuant to the control plan and may be refused in the event that the control plan is not being adhered to in any instances.

3. In view of the need for coffee in this country, and of the concession being made in permitting Proclaimed List coffee into this country, it would be preferable if all of the Guatemalan Proclaimed List coffee were shipped to this country. It is hoped, therefore, that no sales will be made to the Swiss, and you may wish discreetly to intimate this to the Central Bank. It is believed, however, that your authority under the circular instruction of February 25, 1942,²⁶ grants you sufficient authority to deal with any questions which may arise, with respect to the acceptance of Proclaimed List coffee which is not to be shipped to the United States, by United States shipping and railway companies. With respect to such sales, you should make sure that the coffee is actually going to be shipped and will not be stored for the duration in Guatemala before granting specific licenses.

This airgram relates only to Proclaimed List coffee and does not purport to answer the questions raised in your A-231 of April 27.²⁷ Separate instructions will be issued to you in the near future with regard to such problems.

HULL

740.00112A European War, 1939/31029 : Telegram

The Secretary of State to the Ambassador in Guatemala (Long)

WASHINGTON, May 25, 1943—midnight.

276. Your 252, May 22, 5 p. m.²⁶ The Department has been informed that it is stated in Guatemala that this Government is insisting that all Proclaimed List coffee be sold by the Banco Central in lots at auctions.

You should make it clear to the appropriate Guatemalan authorities, and in your discretion to any other interested parties, that this Government is insisting upon no special conditions with regard to the sale of Proclaimed List coffee other than those set forth in its airgram no. 436 of May 17, 6:30 p. m. Provided Proclaimed List coffee is sold in accordance with those conditions and with the Inter-American

²⁶ Not printed.

²⁷ Airgram No. A-231 recommended that consideration be given to the question of purchases of products other than coffee, particularly cinchona bark, from Proclaimed List plantations intervened by the Banco Central (740.00112A European War 1939/29739).

Coffee Agreement, the Department considers it otherwise entirely for the Guatemalan Government to decide in what manner the coffee is to be sold.

For your confidential information, the Department does not wish to prevent an en bloc sale of Proclaimed List coffee by the Banco Central through regular trade channels to the Army. You should of course be careful, in accordance with the policy described above, not to take a position either for or against such a sale.

HULL

740.00112A European War, 1939/31340 : Telegram

The Ambassador in Guatemala (Long) to the Secretary of State

GUATEMALA, May 26, 1943—8 p. m.

[Received May 26 (27?)—1:38 p. m. (a. m.?)]

259. Reference Department's telegram No. 276, May 25. Salvador del Egado [*Delgado*], local representative of J. A. Medina Company, advises that he has purchased on behalf of his principals for delivery to the U. S. Army entire lot of Proclaimed List coffee held by the Central Bank.

Details follow by airmail.²⁸

LONG

740.00112A European War, 1939/32546

The Ambassador in Guatemala (Long) to the Secretary of State

[Extracts]

No. 97

GUATEMALA, June 18, 1943.

[Received June 22.]

SIR: I have the honor to report that under cover of a note dated June 8, 1943, the Guatemalan Ministry of Foreign Relations has forwarded to this Embassy copies of three contracts signed by the Banco Central de Guatemala, for the Government of Guatemala, and Salvador Delgado, representing the firm of J. A. Medina Company of New York, covering the purchase of 162,750 quintals of cleaned coffee from properties on the Proclaimed List and intervened by the Banco Central. The contracts cover the following amounts and prices:

12,400 quintals Maragogype, at \$14.00 per quintal.

75,305 quintals arábigo, at \$15.00 per quintal.

75,045 quintals arábigo, at \$15.00 per quintal.

All prices are f.o.b. Puerto Barrios, and a credit of \$2,400,000 has been opened in the Guaranty Trust Company of New York in favor

²⁸ Despatch No. 97, *infra*.

of the Banco Central de Guatemala to cover the purchase. Delivery is to be made as soon as possible, with August 31, 1943 named as the time limit. We have been advised by the Banco Central that shipments will be made direct to the United States Army by the bank, the coffee having been purchased for sale to the Army.

This Embassy's despatch No. 39, of May 31, 1943,³⁰ outlined in detail the steps taken to advise the Guatemalan Government that the Proclaimed List coffee crop for 1942-43 would be permitted to enter the United States, and to give all American firms, or their representatives, in Guatemala simultaneous notice that this coffee might be purchased without specific license. Copies of the communications with the Foreign Office and the letters to the trade will show that at no time did this Embassy give any indication whatsoever of preference as to the manner in which the Banco Central should sell the coffee, or the customers to whom it should be sold. The report received by the Department, as stated in the Department's Telegram No. 276 of May 25, to the effect that our Government was insisting on a public auction of the coffee, was a complete misrepresentation of fact.

It was realized that the Army was anxious to get this block of coffee, and this Embassy would have been glad to do anything consistent with our instructions, to assist the Army to secure it. Purchases of other foodstuffs which the Army needs have been discussed with the Quartermaster Corps' local representative and any assistance possible rendered him. It is difficult to understand why, when the Army has one of its own men here as a purchasing representative, it could not have instructed him to buy this coffee, thus avoiding the large profit for the agent. The fact that this was not done, and that the purchase was handled as it was, has created such a generally unfavorable impression that it is felt that the Department should be advised of the situation.

The note submitted by this Embassy to the Guatemalan Foreign Office was handed as a public document, to the Coffee Advisory Board, so that it should have been recognized that we had specifically asked for equal treatment for all coffee buyers, American and Guatemalan alike. However, there is strong evidence to support the report that considerable resentment is felt against the Embassy in local coffee circles, and that even in fairly high Guatemalan Government circles the impression exists that we were instrumental in securing the business for Mr. Medina. The exclusive way in which the Army handled the business, and the fact that the Ministry of Finance took the matter out of the hands of the Banco Central, have also been widely criti-

³⁰ Not printed.

cized. It is reported that better prices could have been secured for the coffee, and the repeated accusation of under-grading on the types of coffee purchased is taken as an indication of excessive profits to be made on the transaction. This Embassy is not in a position to vouch for these statements, nor can it deny them. The fact that they are current is considered extremely unfortunate.

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Respectfully yours,

For the Ambassador:
ARCHIBALD R. RANDOLPH
Acting Commercial Attaché

HAITI

SUPPLEMENTARY AGREEMENT BETWEEN THE UNITED STATES AND HAITI CONTINUING IN FORCE CERTAIN PROVISIONS OF THE AGREE- MENT OF SEPTEMBER 30, 1942, RESPECTING HAITIAN FINANCES

[For correspondence concerning the agreement of September 30, 1942, see *Foreign Relations*, 1942, Volume VI, pages 465 ff. For text of supplementary agreement, signed at Port-au-Prince August 28, 1943, see Department of State Executive Agreement Series No. 378, or 57 Stat. (pt. 2) 1368.]

HONDURAS

DISCUSSIONS CONCERNING THE WAIVER OF CONSULAR FEES ON SUPPLIES FOR THE INTER-AMERICAN HIGHWAY

810.154/1969

The Minister in Honduras (Erwin) to the Secretary of State

[Extracts]

No. 2624

TEGUCIGALPA, February 12, 1943.

[Received February 16.]

SIR: I have the honor to report that the contractors on the Inter-American Highway¹ have informed me that they may be forced to stop construction work unless: (1) the Honduran consular charge of eight percent ad valorem on imports is waived, or, (2) their contracts with the United States Government and the Honduran Government are modified to make allowance for the payment of such charge.²

Decree No. 66, of March 9, 1926, was published in the official Honduran publication, *La Gaceta*, a complete set of which, it is believed, are on file in Washington, on April 30, 1926, issue No. 7002. This decree concerns the refunding of the British-French loans of 1867-70; the refunding agreement was fulfilled until October 1942, when the Honduran Government requested permission to suspend payments because of reduced consular receipts arising out of the shipping difficulties of the war. Article 8 provides in part that in guaranty of the payment of the semi-annual bonds of 20,000 pounds sterling each, and the expenses for servicing the debt, the Honduran Government will set aside the product of the consular fee of 3% on all consular invoices for merchandise destined to Honduras. This fee of 3% will be collected obligatorially and exclusively by means of special stamps which will be deposited in the hands of the National City Bank of New York

¹ Frederick Snare Corporation and Swinnerton, McClure, Vinnell Associates.

² The Honduran Ministry of Finance, through the Honduran Foreign Office, informed the American Legation prior to the date of this despatch that although it would gladly dispense with all other duties, taxes, and charges on importations for the Inter-American Highway, it was prevented from waiving the consular fees by the wording of article 8 of the contract approved by the Government of Honduras, for the first part, and the Corporación de Tenedores de Bonos Extranjeros de Londres (London Bondholders Council), and the Comité de Tenedores de Bonos de Honduras, for the other part. This contract, approved by Decree No. 66 of March 9, 1926, not found in Department files.

or other bank of recognized credit, accepted by the parties, to be sold to exporters (to Honduras) for the payment of said fee as it becomes necessary. The text of Article 8 is contained in Enclosures Nos. 4 and 5⁴ to this despatch.

On March 17, 1930, the Honduran Government issued Decree No. 139, published in *La Gaceta* of April 10, 1930, No. 8169, which raised the 3% ad valorem consular fee to 5%, and which provided that the 2% increase should be used for the redemption of the Ferrocarril Nacional and the dock at Puerto Cortes. Enclosures Nos. 6 and 7⁴ to this despatch contain the text of Decree No. 139.

On March 5, 1942, the Honduran Government issued Decree No. 69, published in *La Gaceta* of March 10, 1942, No. 10,652, which raises the consular fee from 5% ad valorem to 8%, and which provides that the 3% increase is to be destined for the payment of the diplomatic and consular services. It also provides that "when the said income is freed from the obligations contracted by decree No. 66, of March 9, 1926, which levied a tax of 3%, there is to be destined the 5% from the product of the same consular levy, as guaranty for the fulfilment of the obligations which may be contracted by virtue of Decree No. 52, of February 11, 1942."⁵ . . .

In view of the fact that the Export-Import Bank was apparently aware of the existence of the 3% fee of 1926, the 2% of 1930, and the 3% of 1942, the Legation hesitates to take the position that these charges should be waived because the Export-Import Bank clearly is an interested party,⁶ as well as the Corporación de Tenedores de Bonos de Londres, in the payment of the 3% fee of 1926, and may be under the impression that the 2% of 1930 and even possibly the 3% of 1942 are also part of its guarantee. At the same time, it seems rather incongruous that the U.S. Government and the Honduran Government should, in order to construct the Inter-American Highway, be forced to pay the Corporación de Tenedores de Bonos de Londres, and perhaps later, the Export-Import Bank itself. In any case, a good deal of needless accounting and bookkeeping might possibly be avoided by appropriate negotiations at this time.

⁴ Neither printed.

⁵ Decree No. 52, copy of which was forwarded to the Department by the Minister in Honduras in his despatch No. 1847 of February 20, 1942, authorized the President of Honduras to contract a foreign loan with the Export-Import Bank in Washington of a sum not to exceed \$15,000,000 (\$15.51/990).

⁶ Under the terms of article 6 of the loan agreement of September 9, 1942, between the Republic of Honduras, the Banco de Honduras, and the Export-Import Bank of Washington, the Bank's loan was secured, in the last contingency, by income from consular fees. For text of agreement, see Department of State Executive Agreement Series No. 296, or 56 Stat. (pt. 2) 1848.

It seems pertinent at this point to refer to the Department's instruction No. 835, of July 24, 1942,⁷ pointing out that the increase in consular fee from 5% to 8%, as reported in the Legation's despatch No. 1912, of March 18, 1942,⁷ is apparently in conflict with Article I of the trade agreement of December 18, 1935, between Honduras and the United States.⁸ This has been brought to the attention of the Honduran Foreign Office in two informal memoranda. No reply has been received, but the Legation will inform the Department promptly regarding any future developments.

In order to prevent the stoppage of work on the Inter-American Highway, the Legation respectfully suggests that the Department immediately arrange a working agreement with the representatives of Swinnerton, McClure, Vinnell and the Frederick Snare Corporation in Washington, the British representatives of the Corporación de Tenedores de Bonos de Londres, the Export-Import Bank, the U.S. Public Roads Administration, and the Honduran Minister in Washington,⁹ regarding the 8% Honduran consular fee.

The Legation would appreciate the receipt of information by telegraph as soon as an agreement may have been reached.

Respectfully yours,

JOHN D. ERWIN

810.154/2005

The Minister in Honduras (Erwin) to the Secretary of State

No. 2835

TEGUCIGALPA, March 30, 1943.

[Received April 3.]

SIR: With reference to the Department's instruction No. 1185, of March 26, 1943,⁷ and to previous correspondence in connection with the difficulties arising from the insistence of the Honduran authorities that they could not waive the 8% consular charge for the materials imported for the construction of the Inter-American Highway, I have the honor to report that Mr. E. W. James¹⁰ discussed the matter informally with me during his recent stay in Tegucigalpa, but that I have no knowledge of any arrangement which he may have worked out with the Honduran authorities.

In order to complete the Legation's files and to be prepared in case the difficulties recur, I would appreciate receiving information as to the terms of the agreement and the name of the Honduran official with whom Mr. James made it.

Respectfully yours,

JOHN D. ERWIN

⁷ Not printed.

⁸ Executive Agreement Series No. 86; 49 Stat. (pt. 2) 3851.

⁹ Julián R. Cáceres.

¹⁰ Edward W. James, Chief of the Inter-American Regional Office, Public Roads Administration.

810.154/2021

The Minister in Honduras (Erwin) to the Secretary of State

No. 2910

TEGUCIGALPA, April 26, 1943.

[Received May 3.]

SIR: I have the honor to refer to the following communications:

1. Legation's despatch No. 2624 of February 12, 1943
2. Legation's despatch No. 2631 of February 16, 1943 ¹³
3. Department's instruction No. 1185 of March 26, 1943 ¹³
4. Legation's despatch No. 2835 of March 30, 1943
5. Department's instruction No. 1218 of April 16, 1943 ¹³

There are enclosed herewith copies of a letter of April 9, 1943, from Mr. E. W. James to Mr. W. H. Schwiesow.¹⁴

It is noted that instead of proposing a manner of waiving the consular fees of 8% as vigorously demanded by the highway contractors and as reported in the Legation's despatch No. 2624, Mr. James has merely suggested that the full 8% consular fees be paid.

As explained in the Legation's No. 2624, it does not appear that the full 8% should be paid in any case. In addition, attention is directed to the fact that even the payment of the three percent would constitute in effect: (1) payment to the London Bond Holders Council of one-third the amount of the fee on all imports for the construction of the Honduran section of the Inter-American Highway by the Honduran Government, and (2) payment to the London Bond Holders Council of two-thirds the amount of the fee on all imports for the construction of the Honduran section of the Inter-American Highway by the United States Government. Assuming, for example, that there will be imported \$2,000,000 worth of materials for the Highway, there would be paid to the London Bond Holders Council from the three percent fee, \$60,000, of which the United States Government would pay \$40,000. This illustration is predicated on the assumption that the amounts collected are needed for the semi-annual payments to the London Bondholders.

It should be noted that the full 8% has until the present been waived by the Honduran Government in response to demands by the Highway contractors direct to the Ministry of Finance and the President. The Legation would appreciate additional instructions at as early a date as possible indicating whether or not the United States Government is willing to make this donation to the Honduran Government.

Respectfully yours,

JOHN D. ERWIN

¹³ Not printed.

¹⁴ Will H. Schwiesow, Associate Highway Engineer, U.S. Public Roads Administration, stationed at this time in Honduras. Letter not printed.

810.154/2027

The Secretary of State to the Ambassador in Honduras (Erwin) ¹⁵

No. 1262

WASHINGTON, May 17, 1943.

SIR: The Department has received your despatch no. 2910 of April 26, 1943, regarding the 8% consular fee which the Honduran authorities wish to charge on material imported for the Inter-American Highway work.

In view of your explanation that the Honduran Government has already acceded to demands of the highway contractors that the entire 8% consular charge be waived, the Department will accept this situation. The Public Roads Administration, on being consulted, also signified its assent to the maintenance of the present situation. You may therefore disregard the Department's instruction no. 1218 of April 16, 1943.¹⁶

For your confidential information, the Department is somewhat concerned at the financial and psychological effect which this waiver may have on Honduras, which has suffered more than any other Central American country from war-engendered economic dislocations. The Department does not feel that this consideration is of sufficient importance to warrant re-opening the question. It does, however, desire that you keep its views in mind in the event that the question should arise again in any form, and it wishes you to keep it informed of any developments which you may observe.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

810.154/2035

The Ambassador in Honduras (Erwin) to the Secretary of State

No. 67

TEGUCIGALPA, May 21, 1943.

[Received May 25.]

SIR: I have the honor to refer to the following communications:

1. Despatch No. 2624, of February 12, 1943
2. Despatch No. 2631, of February 16, 1943 ¹⁷
3. Department's instruction No. 1185, of March 26, 1943 ¹⁷
4. Despatch No. 2835, of March 30, 1943
5. Department's instruction No. 1218, of April 16, 1943 ¹⁷
6. Despatch No. 2910, of April 26, 1943
7. Department's instruction No. 1262, of May 17, 1943.

¹⁵ The American Legation in Honduras was raised to the status of Embassy on April 27, 1943, when Minister Erwin presented his credentials as Ambassador.

¹⁶ Not printed; it indicated that the Department had approved a compromise plan suggested by E.W. James of the Public Roads Administration (810.154/2005).

¹⁷ Not printed.

The Embassy regrets that its despatch No. 2910 seems to have been interpreted as implying that the Honduran Government has acceded to demands of the highway contractors that the entire 8% consular charge be waived. The Embassy merely stated that, "It should be noted that the full 8% has until the present been waived by the Honduran Government in response to the demands by the Highway contractors direct to the Ministry of Finance and the President". The Honduran Government was presented a threat of complete stoppage of work on the Inter-American Highway by the Highway contractors, if the consular charge were collected. Rather than place itself in the position of having stopped such construction the Honduran Government agreed with the contractors to waive temporarily collection of the charge. The Embassy informed the Honduran Government informally that the matter would be submitted to the Department of State. The Hondurans stated that a record would be kept of all imports by the contractors, which the Embassy interprets to mean that if eventually the London Bondholders contest the waiving of the 3% consular fee, the Honduran Government will be in a favorable position to make a claim against the contractors. It will be noted that the waiver of collection of the consular charges is entirely on an informal basis, and the contractors could be prosecuted legally in the Honduran courts at any time. Such action may be unlikely, unless the London Bondholders press the matter.

It is the Embassy's belief that it might be advisable to reach a definite agreement on the matter through consultation with the parties concerned as suggested in despatch No. 2624 of February 12, 1943.

Respectfully yours,

For the Ambassador:
JOHN B. FAUST
Secretary of Embassy

810.154/2035

The Secretary of State to the Chargé in Honduras (Faust)

No. 1294

WASHINGTON, June 10, 1943.

SIR: The Department has received your despatch no. 67, May 21, 1943, with reference to the 8% consular charge which the Honduran Government is seeking to collect on equipment and supplies imported for use on the Inter-American Highway.

The Department notes that in your despatch no. 2624 of February 12, 1943, and also in your budget report of December 28, 1942²⁰ it was stated that the Honduran Government had in October 1942 requested permission of the British Foreign Bondholders Council to

²⁰ Economic Trade Report No. 128, not printed.

suspend service on the Honduran sterling debt. No categorical statement has, however, been found in your reports that the debt service has in fact been suspended. The Department is of course unaware whether, in the event that the debt service has been suspended, any provision was made with regard to the collection of the 3% portion of the consular charge which was earmarked to service the debt.

Moreover, the Department is not fully informed regarding the difficulties which the road contractors anticipate in paying the full 8% consular charge. The Embassy's reports do not explain why the contractors assert that they may be forced to stop construction work unless the consular charge is waived, or their contracts modified.

It has already been made clear by Mr. E. W. James' letter of April 9²¹ that there is no legal objection to the payment of the 3% or indeed the full 8% consular charge for material imported by the contractors for the Inter-American Highway project. With regard to the pioneer highway contractor, it should be pointed out that the only agreement reached with the Honduran Government in regard to the project was that concluded in pursuance of the Department's telegram no. 137 of June 20, 1942,²¹ which merely secured permission for the contractors with their personnel and equipment freely to enter Honduras. It is not the Department's view that such a general commitment could require the Honduran Government to waive the collection of fees which the Honduran Government has no legal right to waive, to the prejudice of third parties.

You are requested to take this matter up with the contractors and with the appropriate Honduran authorities, bearing the above considerations in mind. You should make it very clear that this Government will not request the Honduran Government to waive any charges which it is legally unable to waive, and that such charges will have to be paid by the respective contractors. You should, on the other hand, be satisfied that the Honduran Government has fulfilled its undertaking to waive such fees as it can waive. In this connection you should remember that the Public Roads Administration is prepared to approve the payment of the full 8% consular charges in the manner described in Mr. James' letter. Within the limitations described above, any specific agreement which you may be able to reach in Honduras satisfactory to the respective parties to the dispute will receive the Department's favorable consideration. The Department believes, on the basis of the information available to it, that this should mean in practice the waiving by the Honduran Government of 5% of the 8% consular charge both for the Inter-American High-

²¹ Not printed.

way project and for the pioneer highway project;²³ but within such legal limitations as may exist with respect to the Honduran Government and the contractors, it would prefer to see the whole charge paid rather than urge upon the Honduran authorities an exemption which the country's finances could ill afford.

The Department is unwilling to discuss this matter with the representatives of the English bondholders as recommended in the Embassy's despatch no. 2624 of February 12, 1943, the more so as the Export-Import Bank has a second lien on the portion of the consular charges which are pledged to the service of the sterling debt.

Very truly yours,

For the Secretary of State:

SUMNER WELLES

810.154/3032

The Ambassador in Honduras (Erwin) to the Secretary of State

No. 224

TEGUCIGALPA, July 15, 1943.

[Received July 21.]

SIR: I have the honor to refer to my despatch No. 150, of June 21, 1943,²⁴ and to the Department's instruction No. 1322 of July 6, 1943,²⁵ file No. 810.154/2063, regarding the Honduran consular charge of 3% and the effects of its being collected or not collected on imports for the construction of the Pioneer and Inter-American Highways.

The Department's instruction No. 1322 states, "The Export-Import Bank informs the Department that, quite apart from any interpretation which the Honduran Government may place on its obligations to the British Foreign Bondholders Council, it considers that it has a second lien on the entire three per cent part of the consular charge on which the British Foreign Bondholders Council holds the first lien, and that if there is any surplus available after full service has been provided on Honduran obligations to the Council, this surplus is subject to the Export-Import Bank's lien." . . .²⁶ "The Department therefore feels that the Honduran Government should not waive the three per cent portion of the consular charge on which the Export-Import Bank has a second lien, quite apart from any obligations which the Honduran Government may have toward the British Foreign Bondholder's Council in this connection."

The Embassy has discussed the question with the Acting Minister of Finance, Dr. Urbano Quesada, who stated informally that he did

²³ For correspondence concerning the Pioneer Highway project, see vol. v, pp. 76 ff.

²⁴ Not printed; it summarized the opinion of the Acting Honduran Minister of Finance (Urbano Quesada) that the entire 8% consular charge could be waived with good reason (812.154/2063).

²⁵ Not printed.

²⁶ Omission indicated in the original despatch.

not agree with the Export-Import Bank's position. He also pointed out that the payment of the 3% charge on imports for the highway would in effect constitute an outright gift by the United States Government to the Honduran Government of two-thirds of the amount of such payment. He outlined again the position forwarded to the Department in the Embassy's despatch No. 150, and stated that, although technically speaking the 3% could not be waived, there was little likelihood of any complaint from the British Bondholders as long as the semi-annual payments were made.

With regard to the Export-Import Bank's claim that it has "a second lien on the entire three per cent part of the consular charge . . .²⁷ and that if there is any surplus available after full service has been provided on Honduran obligations to the Council, this surplus is subject to the Export-Import Bank's lien", the Embassy respectfully refers to its despatch No. 2624, of February 12, 1943. It will be noted on pages 3 and 4 of the above-mentioned despatch that Article 6 of the Export-Import Bank contract pledges: "(b) The proceeds of the consular income now pledged in accordance with Legislative Decree No. 66 of March 9, 1926, the same to be available when released from the prior lien of said pledge". Enclosures Nos. 4 and 5²⁸ to despatch No. 2624 contain Article 8 of Decree No. 66 indicating that the proceeds of the 3% charge are to guaranty the payment of the semi-annual bonds of 20,000 pounds sterling each and the expenses for servicing the debt, and that the balance above this amount will be placed at the order of the Honduran Government.

The Acting Minister of Finance interprets the above clauses to mean that the Export-Import Bank does not have a lien on the available surplus after service has been provided on Honduran obligations to the Council, and that its lien on receipts up to 20,000 pounds sterling plus service charges does not take effect until "when released from the prior lien of said pledge." He implied, however, that the Export-Import Bank contract might possibly be construed, after the release from the prior lien, in such a manner that the Export-Import Bank would receive more than 20,000 pounds plus service charges.

The Embassy would appreciate the receipt of additional instructions indicating the grounds on which the Export-Import Bank claims to have a lien on the present surplus of receipts above the payments for the British debt before presenting the matter formally to the Honduran Government.

Respectfully yours,

JOHN D. ERWIN

²⁷ Omission indicated in the original despatch.

²⁸ Neither printed.

810.154/3032

The Secretary of State to the Ambassador in Honduras (Erwin)

No. 1379

WASHINGTON, August 17, 1943.

SIR: The Department refers to the Embassy's despatch no. 224, July 15, 1943, with reference to Honduran consular charges on equipment for the Inter-American Highway. In this connection a copy of a letter which has been received by an official of the Department from the Counsel of the Export-Import Bank of Washington is enclosed for the Embassy's information.³⁰

The Embassy is requested to discuss this matter further with the appropriate Honduran authorities with a view to carrying out the Department's earlier instructions nos. 1294 of June 10, 1943 and 1322 of July 6, 1943.³¹

Very truly yours,

For the Secretary of State:
A. A. BERLE, JR.

AGREEMENT BETWEEN THE UNITED STATES AND HONDURAS CONTINUING IN FORCE AN AGREEMENT OF FEBRUARY 28, 1941, RESPECTING PLANTATION RUBBER INVESTIGATIONS

[For text of agreement, effective July 1, 1943, through exchange of notes signed at Tegucigalpa June 18 and 28, 1943, and for text of agreement of February 28, 1941, see Department of State Executive Agreement Series No. 358, or 57 Stat. (pt. 2) 1220.]

COOPERATIVE EFFORTS BY THE UNITED STATES TO RELIEVE A CURRENCY SHORTAGE IN HONDURAS

811.51/5421

The Minister in Honduras (Erwin) to the Secretary of State

No. 2500

TEGUCIGALPA, December 17, 1942.

[Received December 22.]

SIR: I have the honor to refer to the following communications between this Legation and the Department of State:

[Here follows a list of 16 communications (none printed) of the period May 18 to November 30, 1942, which trace the early development of currency problems in Honduras.]

³⁰ This letter, dated August 5, from James F. Mersereau to John Cabot, Assistant Chief of the Division of the American Republics, expressed approval of Departmental opposition to "requesting or permitting waivers of import duties on American products for the purpose of meeting special situations, when such duties are necessary to cover government obligations." In conclusion, Mr. Mersereau assured the Department that the Bank would gladly clarify for the Honduran Government article 6 of the agreement of September 9, 1942, if the wording of the contract were not sufficiently clear (810.154/3032).

³¹ Latter not printed.

Because of the fact that this Legation daily receives complaints from business men, bankers, travelers, and from American and Honduran Government officials against what they regard as the short-sighted policy of the United States in discrediting its own currency, it is deemed important to summarize once more the recent developments regarding the dollar currency situation in Honduras.

After many years of currency difficulty, Honduras adopted the Lempira standard by Legislative Decree No. 102, of 1926, which states in Article I that the national monetary unit is the Lempira, equal to \$0.50 United States currency. This stipulation is renewed in Article I of Legislative Decree No. 114 of 1931.

At various times from the early nineteen twenties to the early nineteen thirties, the American dollar was the principal circulating medium in Honduras. Legislative Decree No. 141, of 1934, provided for a commission for the control of exchange and the stabilization of currency in Honduras, and stated in Article 4 that the importation of dollar currency should be limited by the Exchange Control Commission to that amount deemed strictly necessary. In the exercise of powers granted him under Decree No. 141, of March 27, 1934, the President ³² issued an *acuerdo* on April 17, 1934, entitled "Reglamento de la Ley de Control de Cambios Internacionales".

Article 20 of the "Reglamento" states that: "Only by special permission of the Commission of Control of Exchange, in each case, may bills of the United States be imported, with the exception of tourists and those who, according to the law of immigration are obliged to bring a certain amount of money fixed by that law when entering the country, but this money may not be put into circulation except through the credit institutions or any of their branches by obtaining in exchange the legal equivalent in the national (Lempira) currency. The deposits made in conformity with the law of immigration must be returned in the same currency in which they are made, or in international exchange at the current rate if the interested party has to leave the country, but if he remains in territory of the Republic, his repayment will be made in national currency also at its legal equivalent."

Article 21 states: "According as the circulation of bills of the credit institutions established in the country fulfills the necessities of commerce, the Commission of Control of Exchange through the medium of the banks will withdraw the bills of the United States of America from circulation and will proceed to their exportation. Also, the fiduciary currency brought to this country by tourists and immigrants will be exported, and this will be done by the banks of the country, whether it form a part of their assets or should belong to the Exchange Fund".

³² Tiburcio Carías Andino.

At various times the Exchange Control Commission has indicated that dealing in dollar currency was really equivalent to dealing in Foreign exchange, and therefore subject to its direct supervision. Specific instructions were issued to the Banks prohibiting them from selling dollar currency without special authorization, and implying, at least, that the Banks' purchases of dollar currency were also subject to Commission's approval.

The administration of the above regulations gradually worked to the virtual elimination of dollar currency from daily transactions. However, dollars continued to be accepted by merchants to some extent. The usually unfavorable trade balance of Honduras made it very difficult to obtain foreign exchange, and, there is a charge of two percent plus service fee on all sales of foreign exchange. From about 1938 through 1941 there was a premium on dollar currency in the "black market" of 5 to 10 percent. Many merchants made buying trips to the United States every other year, carrying with them the dollar currency bought locally.

Traditional lack of confidence in the stability of Honduran currency, and fear of revolutions, caused many persons to keep a reserve of dollar currency hidden away.

Mention should also be made of the fact that tourists and traveling business men brought American currency into the country. On several occasions, even after the 1934 regulations, the American fruit companies on the North Coast of Honduras were allowed to meet pay-rolls in U.S. currency.

By 1942 the "black market" operations and the other operations referred to above had virtually taken dollar currency out of visible circulation. In fact, dollar currency was so scarce that the "black market" itself virtually ceased to function in 1941. At the same time the balance of trade had become "favorable", making dollar exchange readily available.

In response to the Department's instructions listed above, the Legation requested that the Honduran Government pass more specific legislation regulating dollar currency. These restrictions are discussed fully in the communications listed in paragraph one of this despatch.

Particular mention should be made of the Department's instruction No. 784, of June 27 [25], 1942,³³ which states at one point that: "In view of these regulations, you should ask the government to which you are accredited to notify the Central Bank and other institutions not to purchase dollars but merely accept them for transmittal on a collection basis."

³³ Not printed.

The publication of the Honduran Decrees against dollar currency caused panic in all parts of the country, and to alleviate the situation, the Legation recommended that the Banks accept limited amounts, at least for collection purposes, and mildly censured the Banco Atlántida, an American-owned firm, for having refused to take dollars in any form at some of its branches.

The Banco Atlántida followed a policy of accepting only small amounts of U. S. currency, and, as reported in despatch No. 2456, of November 19, 1942,³⁴ it attempted to send \$160,000 to the United States after first notifying this Legation, as mentioned in the Legation's despatch No. 2415 of October 30, 1942.³⁴

When Mr. Jean Charbonnet, General Manager of the Banco Atlántida, arrived in Miami it is reported here that he was virtually arrested and taken to Atlanta, Georgia, along with the funds to be turned over to the Federal Reserve Bank. It is believed that he has now been released, but the ultimate disposition of the funds remains in question.

The Banco de Honduras reports that its attempts to ship currency to the United States have only caused trouble and monetary loss; therefore, it has suspended accepting dollar currency under any circumstances whatsoever.

The Banco Atlántida has not complained about the Charbonnet incident, but merely informed the Honduran Government, and this Legation, that, because of its present involvement with American currency, in future it would accept American dollars for collection only, and that all charges plus one percent would be deducted from the amount due to the person presenting the currency. Both banks are reportedly ignoring the Exchange Control Commission's authorizations to pay in Lempiras for U.S. currency regardless of whether the source be travelers, officials, etc. This is working a hardship on persons, many of them American citizens, who arrive here with \$50 in U. S. currency under the impression that they can exchange them for Lempiras through the Exchange Control Commission.

The President of the Honduran National Congress, Plutarco Muñoz, according to unofficial information, planned to discuss the situation extensively in his speech at the opening session of the National Congress, December 5, 1942. After much discussion, and at the request of President Cárías, he modified his opening speech, and has confined himself to newspaper comments. His comments are echoed throughout the Republic; some trying to clarify the policy of the United States by pointing out that despite the billions being expended by the United States, the U. S. currency is really not falling

³⁴ Not printed.

in value, while others are not so hopeful. Some critics point out that the Lempira is tied to the dollar and eventually will decline also.

There is an undercurrent of glee on the part of anti-Americans, and pro-Axis persons, and comments regarding the "bungling policy of the Democracies" and the "prophetic weakness of the dollar" are not infrequent.

There is not, and never has been, as far as the Legation has been able to ascertain by diligent inquiry, any Axis-owned U. S. currency in Honduras.

The Honduran public, along with the Honduran Government, is frankly puzzled by what it considers a policy being urged on the Honduran Government to discredit and question the stability of United States currency. Pointing out that there is a difference between depreciating the currency and depreciating the exchange rates, has had little beneficial effect. Letters from persons in various parts of the interior who believe they have now lost their meager savings, and complaints from disgruntled travelers, continue to beset the Legation and the consulates.

The Legation clearly understands that substantial amounts of American currency were seized when the Germans over-ran Norway, the Netherlands, Belgium, France, et cetera, and that the object of restricting the movement of dollar currency in Latin America is to prevent the enemy from benefiting from the sums seized. According to the "United States Treasury Circulation Statement", the amount of money in circulation outside the Treasury on June 30, 1940, was \$7,847,501,324. It seems improbable that more than 1 percent (or \$78,475,013) could have been in the countries over-run by the Germans, and it is even more unlikely that the Germans could have seized all of this; certainly a substantial proportion must have been sent away prior to their arrival. Furthermore, much (perhaps most) of what the Germans seized must have been exchanged by now.

It is extremely difficult to understand (1) how substantial sums of "tainted" dollar currency could be brought into Honduras, (2) how it could be changed into Lempiras on a large scale without attracting attention; in fact, without upsetting the whole national currency system, and (3) since all exchange transactions are rigidly controlled by the Honduran Government, and all such transactions are made through the medium of U. S. banks, what good it would do the Axis to get its funds changed from dollars into Lempiras in the first instance.

While the depreciation of dollar currency and the controls of the movement of dollar currency have undoubtedly handicapped Axis operations in certain areas, the damage to American prestige and the

inconvenience to the Latin-American public weigh heavily on the other side of the scales.

Unless corrective measures are taken, the situation is likely to become worse. Any information which the Department may have regarding the modification or clarification of the policy, or regarding the length of time the Honduran and the traveling public must endure these unqualified hardships, will be sincerely appreciated. In any case, the United States Treasury should make adequate arrangements enabling Latin American banking entities to make legitimate shipments of U.S. currency to the United States in an orderly manner.

Respectfully yours,

JOHN D. ERWIN

S11.51/5439: Airgram

The Secretary of State to the Minister in Honduras (Erwin)

WASHINGTON, January 14, 1943—4:30 p. m.

A-164. Reference your despatches nos. 2474, November 30, 1942; 2500, December 17, 1942; 2518, December 23, 1942; and 2524, December 24, 1942.³⁶ The Department recognizes the seriousness of the situation which has occasioned your various communications regarding the effects of this Government's program and the Honduran controls with respect to dollar currency and it is hoped that this airgram will assist in solving these difficulties.

In instituting controls over the movement of dollar currency, it was not the intention of this Government to interfere with the legitimate movement of dollar currency within the other American republics or the legitimate importation of dollar currency into the United States from the other American republics. Nevertheless, it was known that the Axis had seized large amounts of dollar currency, and that this currency was being disposed of in part through channels involving persons in the neutral countries of Europe and in the other American republics. It was believed that the best way to prevent the Axis from realizing on their looted currency was to adopt measures designed to drive the value of the dollar bill as low as possible in those markets where the dollar was not a part of the circulating medium. It was not intended to affect the exchange rate for telegraphic transfers, dollar drafts, travelers checks, et cetera, in those areas and events have proved that our currency controls did not affect such rate. Neither was it intended to affect the rate of exchange for dollar currency in those areas such as exist in Central America and in Cuba where dollar currency is a substantial part of the circu-

³⁶ Despatches Nos. 2474, 2518, and 2524 not printed.

lating medium and thus far we have had no indication from any of these areas that such rate has been affected.

Consistent with the foregoing aims, it was believed that two alternative types of currency controls should be suggested to the governments of the other American republics in order to supplement our own controls. For those areas where dollar currency was not a part of the circulating medium, it was believed that the controls should include: (1) a prohibition against the importation and exportation of dollar currency except direct currency movements between the United States and the area involved through the medium of authorized banking institutions and except for a reasonable exemption for travelers between the United States and that area; (2) the requirement that all dollar currency be deposited with authorized banking institutions for forwarding to the United States on a collection basis; and (3) the prohibition of all further holding of or dealing in dollar currency within the area involved. For those areas where the dollar was a substantial part of the circulating medium, it was recognized that items (2) and (3) would not be feasible and consequently only item (1) was suggested to those areas as the type of control desired.

It was first assumed that Honduras was an area where the dollar was a substantial part of the circulating medium and accordingly a telegram suggesting controls along the above-mentioned lines was drafted. Prior to the dispatching of this telegram, however, the Legation's despatch no. 2067, May 23,³⁷ was received. In this despatch it was stated that "The circulation of United States currency in Honduras is forbidden by law". As a result of this statement, the Department concluded that Honduras was an area in which dollar currency was not a substantial part of the circulating medium and the statement "In view of these regulations, you should ask the government to which you are accredited to notify the Central Bank and other institutions not to purchase dollars but merely to accept them for transmittal on a collection basis" was accordingly included in instruction no. 784, June 25, 1942.³⁷ This suggestion, of course, did not apply to the amounts of dollar currency brought in by travelers within the limits of the Honduran travelers' exemption which it was contemplated would be purchased outright by the banks.

It now appears that the Department's conclusion was incorrect and that, in point of fact, dollar currency does circulate to some extent in Honduras. Apparently the precise situation is that the selling of dollar currency by banking institutions in Honduras is prohibited without special authorization but the purchase is not. The purpose of the Honduran controls which were put into existence in 1934 appears to be to encourage the purchase of dollar currency by banking institu-

³⁷ Not printed.

tions so as to withdraw such currency from circulation (Article 21, Decree No. 141 of 1934, cited in despatch 2500).

In order to alleviate the existing situation, it is suggested that you inform the Honduran authorities that this Government believes that our controls would be sufficiently implemented if the Honduran Government merely prohibited the importation and exportation of dollar currency except for direct currency movements between Honduras and the United States through the medium of authorized banking institutions (which we assume would be the Banco Atlántida and the Banco de Honduras) and except for a \$50 exemption for travelers between the United States and Honduras. Currency, in excess of the \$50 exemption which persons entering or leaving Honduras attempt to import or export, should be taken from such persons and forwarded to the United States on a collection basis for the account of the persons involved. The effective enforcement of such a provision would make it unnecessary from our point of view to restrict the circulation of dollar currency within Honduras. In this latter connection it might be advisable, however, for arrangements to be made so that deposits of bills of large denomination such as \$500 or over (and possibly \$100 or over if you believe this would not have adverse repercussions) or deposits of large sums would be accepted for forwarding to the United States on a collection basis only for the account of the individual depositor. It is suggested that such arrangements might be more appropriately made informally with the banks rather than through a formal decree or regulation of the Honduran Government.

Upon the basis of the above outlined controls the Treasury will automatically release for free use in the United States all dollar currency forwarded by the Banco Atlántida or the Banco de Honduras for its own account. Such currency should be forwarded by these banks in packages clearly marked "securities" and addressed to the Federal Reserve Bank of New York. Treasury will make the necessary arrangements with the customs authorities to permit such packages to proceed to their destination without delay. Should such packages be brought to the United States by individuals, arrangements should be made so that such individuals will turn the packages over to the customs authorities for forwarding to the Federal Reserve Bank and, upon being notified by the Legation sufficiently in advance, the Department will make arrangements through the Treasury so that such individuals will have no difficulty with customs concerning such packages. In this connection it is regretted that, due to an inadvertence, customs authorities were not notified prior to the arrival in Miami of Mr. Jean Charbonnet, General Manager of the Banco Atlántida on November 19, 1942. The Legation may wish to express this Government's regret to Mr. Charbonnet and to inform

the Banco Atlántida that the \$160,000 in currency taken from him has been released.

Currency forwarded on a collection basis for the account of individuals in the aforementioned cases of imports or exports exceeding \$50 and deposits of large bills or large sums should be forwarded in separate packages and should be accompanied by a statement that such currency is not being forwarded for the account of the forwarding bank.

In discussing these matters with the Honduran authorities, the Legation may wish to keep in mind that the Honduran Government may not wish to relax its controls to the point indicated above but may of its own accord desire to proceed with its program to eliminate dollar currency as a circulating medium in Honduras. Should this be the case, it is not believed that the Legation should oppose this policy, as it is within the competence of any sovereign government to eliminate a foreign currency from its market if it so desires. In such event, however, the Legation should inform the Banco Atlántida and the Banco de Honduras that any dollar currency purchased by it under license from the Honduran Exchange Control Commission will automatically be released by the Treasury upon arrival in the United States if accompanied by an appropriate statement by the bank concerned to the effect that it was acquired pursuant to authorization from the Exchange Control Commission.

It is suggested that, after you have worked this matter out with the Honduran authorities, you arrange with those authorities for appropriate publicity. If possible, please telegraph the text of any public statement before it is issued so that the Department may, if it is felt desirable, make suggestions or comments thereon.

It is hoped that this airgram will enable you satisfactorily to settle the matter. If you have any further questions or problems, please inform the Department promptly. Please also keep the Department informed of all developments.

HULL

811.51/5881

The Minister in Honduras (Erwin) to the Secretary of State

No. 2619

TEGUCIGALPA, February 11, 1943.

[Received February 16.]

SIR: I have the honor to refer to the Department's airgram No. 164, 4:30 pm, January 14, 1943; this Legation's telegram No. 20, of January 20, 11 am, 1943; and the Department's telegram No. 27, of January 26, 7 pm, 1943.³⁹

³⁹ Telegrams Nos. 20 and 27 not printed.

The Legation suggested in its telegram No. 20 the substitution of United States two dollar bills for the present currency of the United States now in Honduras with the following points in mind: (1) that Honduras would change its laws regulating the circulation of U.S. currency in Honduras, (2) that the U. S. Treasury Department believed that there was a probability that some Axis tainted currency existed in Honduras, and (3) that by allowing dollar currency to circulate in Honduras, and not forcing the dollar currency into the banks to be exchanged for Lempiras, the pressure on the limited amount of Lempiras now available might be relieved to the extent of the amount of U. S. currency remaining in Honduras.

In Paragraph Three of the Department's telegram No. 27, it is stated: "If the existing Honduran controls are modified, it would appear that the dollar currency presently in Honduras would circulate freely, that the shortage of Lempiras would be relieved and that the substitution of two dollar bills would not be necessary." It is entirely true that if Honduras declared U.S. currency legal tender again, as it did in the 1920's, that U.S. currency would circulate freely; however, this would seem to indicate that the Treasury Department now has no fear of Axis tainted currency already in Honduras, which is also this Legation's belief. "That the shortage of Lempiras would be relieved", of course, merely means to the extent that dollar currency would not be forced into the banks to be exchanged for Lempiras.

In Paragraph Five of the Department's telegram No. 27 it is stated: "The Department does not understand the relevancy to the question of currency controls of the last paragraph of your telegram concerning the impossibility of selling dollar drafts to the banks in Honduras"⁴⁰ "It would seem that this situation may arise irrespective of whether dollar currency circulates freely in Honduras."

When a Honduran bank buys dollar drafts, it may pay for these drafts in one of two ways: (1) in local currency, (2) in foreign currency obtained by selling some of its stocks, bonds, etc., already held abroad. Payment in foreign currency is limited to the extent that the owners of the exchange are willing to take the foreign currency. However, the bulk of the foreign exchange purchased by Honduran banks is purchased from persons who want Lempiras. For example: the United Fruit Company, the Standard Fruit Company, the New York and Honduras Rosario Mining Company, the Compañía Minera Agua Fría, the United States contractors working on the Inter-American Highway, the various projects of the Coordinator's Office and the Board of Economic Warfare, etc., all want Lempiras to meet local payrolls and make local purchases. They can obtain Lempiras only by selling dollar drafts. They sell the dollar drafts to the banks. In

⁴⁰ Omission indicated in the original despatch.

normal times, the banks could resell the dollar drafts to importers. With the present shipping difficulties, the importers cannot get normal amounts of merchandise from the United States and other countries, therefore, they do not need as much foreign exchange. The foreign exchange balances of the banks increase while their supplies of Lempiras decrease. The supply of Lempiras is limited. If the United States requests the Honduran Government to have all U.S. currency forwarded to the United States, the banks must purchase such dollar currency with Lempiras. During the last seven months the banks have purchased over \$250,000 in U.S. currency, which means that the amount of available Lempiras in the banks which might have been used for the purchase of foreign exchange or for ordinary banking operations has been decreased by more than 500,000 Lempiras. This is roughly 4% of the entire monetary medium of the country, including legal reserves of the banks which must be held in silver Lempiras. It is quite evident from this explanation that currency controls have considerable relevance to the difficulties of the banks in purchases of dollar drafts.*

Of course, the Legation and the various banking and Government officials with whom the question was originally discussed did not think that such a relatively large amount of U.S. currency existed in the country. This was due to the fact that most of it was being hoarded, since many people considered the U. S. dollar as the equivalent of, or even better than, gold. At the same time it was not thought necessary to apply any further internal restrictions on the U. S. dollar, because of the complete lack of any evidence that there were any counterfeit dollars or Axis tainted dollars in Honduras.

The effect of forcing down the value of dollar currency and discrediting dollar currency in Honduras, where there has been no evidence that there was in existence any currency of Axis taint, has been most unfortunate.

In view of the foregoing, the Legation respectfully requests that the Department forward to the Legation the text of whatever modifications of present controls the Department considers should be suggested to the Honduran Government.

Respectfully yours,

JOHN D. ERWIN

* A more complete discussion is contained in the Legation's report No. 152, of January 18, 1943, entitled "Balance of International Payments, Exchange Control and Monetary Control." [Footnote in the original; report not printed.]

815.51/1022

The Acting Secretary of State to the Honduran Minister (Cáceres)

WASHINGTON, February 26, 1943.

SIR: I have the honor to acknowledge the receipt of your note of January 23, 1943⁴¹ in which you request that a mission be sent to Honduras to study the monetary system and credit needs of the country.

I take pleasure in informing you that I am in receipt of a letter from the Treasury Department stating that that Department is prepared to undertake the sending of a special technical mission to Honduras in accordance with the stipulations set forth in your note of January 23, 1943.⁴²

It is the intention of the Treasury Department to include in the personnel of the mission experts from other agencies of this Government. The Treasury Department states that while the members of the mission can be selected in the near future and preparatory work done in this country, it will not be possible for the mission to leave promptly for Honduras because the duties of several members of the mission will require their presence in Washington for the next two months. It would appear, however, that the mission will be able to arrange to leave for Honduras in April or May.

Accept [etc.]

A. A. BERLE, JR.

811.51/3881

The Secretary of State to the Minister in Honduras (Erwin)

No. 1154

WASHINGTON, March 5, 1943.

The Secretary of State refers to the Legation's despatch no. 2619 of February 11, 1943 concerning currency difficulties in Honduras in which the Legation requests that the Department forward the text of whatever modifications of present controls the Department considers should be suggested to the Honduran Government.

At the outset the Department wishes to point out that neither it nor the Treasury has ever believed that there was a probability that any appreciable amount of Axis-tainted currency existed in Honduras. The suggestions originally contained in the Department's instruction no. 784, June 25, 1942,⁴¹ were, as the Legation knows,

⁴¹ Not printed.

⁴² The stipulations were as follows: the sending of a technical mission by, and for the account and risk of, the United States Treasury Department on the understanding that its principal object would be to render a decision on the advisability of founding a National Bank or such other bank as it might consider to be most suitable, and on the further understanding that the resultant recommendations would not necessarily lead to any decision or action by the Honduran Government.

predicated upon the assumption that dollar currency was not a part of the circulating medium in Honduras. Because of this fact, it was felt that a requirement that all dollar currency be deposited and a prohibition against the further holding of dollar currency in Honduras would have constituted an effective means of uncovering such Axis-tainted currency as might in the future have found its way into Honduras in violation of the import restrictions.

The Legation's clarification of the relationship between the difficulties which might be encountered in the future in connection with the sale of dollar drafts and the currency controls is appreciated.

Since the Department does not have available to it a complete compilation of the Honduran exchange control laws, it is difficult to suggest the text of any request for modifications that should be made to the Honduran Government. However, it is believed that the following points will enable the Legation to proceed, in such manner as it sees fit, with the necessary discussions with the Honduran authorities:

(1) It should be suggested to the Honduran Government that it withdraw the following instructions: (a) such instructions against the sale or purchase of dollar currency by banks from persons within Honduras as may have been issued under Decree No. 141 of 1934 (see the Legation's despatch no. 2500, December 17, 1942⁴⁵); (b) the prohibition of the exchange of lempiras for dollar currency by banks imposed on November 30, 1942 (see the Legation's despatch no. 2474, November 30, 1942⁴⁶); and (c) such other restrictions on the internal circulation of dollar currency of which the Legation may be aware. In this connection, however, the Legation's attention is invited to the remarks contained in the latter part of the Department's A-164, January 14, 1943, concerning the possible desire of the Honduran Government to eliminate dollar currency as part of the circulating medium.

(2) It is believed that the restrictions contained in Decree No. 48 of July 15, 1942 (see the Legation's despatch no. 2206, July 16, 1942⁴⁶) and in Decree No. 141 of 1934 constitute, if effectively enforced, a sufficient prohibition against the importation and exportation of dollar currency.

(3) As a result of the foregoing, it is believed that the objective of free circulation of dollar currency within Honduras and the prohibition of the importation and exportation of such currency (with the exception of a \$50 travelers exemption) will be achieved.

(4) To provide a check against the possible appearance of Axis-tainted currency in Honduras, it is suggested that the Legation make arrangements informally with the Banco Atlántida and the Banco de Honduras to handle deposits within Honduras of dollar currency of large denominations and of large sums of dollar currency in the manner outlined in the Department's A-164, January 14, 1943.

(5) The Legation's attention is again invited to the fact that the Banco Atlántida and the Banco de Honduras need not necessarily for-

⁴⁵ *Ante*, p. 372.

⁴⁶ Not printed.

ward to the United States for their own accounts dollar currency which they purchase (see Department's telegram 27, January 26, 1943 ⁴⁷). They may, if they wish, retain such currency and if the Honduran restrictions are withdrawn, sell it to persons within Honduras. Furthermore, should the banks require additional dollar currency to satisfy the currency needs of Honduras, they can make withdrawals from their accounts in the United States in the form of dollar currency and, with the permission of the Honduran authorities, import such currency into Honduras.

The Legation is requested to inform the Department of any questions it may have concerning the matters discussed in this instruction and to keep the Department informed of all developments. The Legation is also requested to forward to the Department copies of existing restrictions in Honduras relating to dealings in foreign exchange, particularly Decree No. 141 of 1934.

815.515/125 : Telegram

The Minister in Honduras (Erwin) to the Secretary of State

TEGUCIGALPA, March 22, 1943—5 p. m.
[Received 10:25 p. m.]

75. My despatches Nos. 2807 and 2808 of March 20.⁴⁸ The shortage of [lempira?] has now reached an acute stage, the Inter-American Highway contractors having just informed me that they will not be able to obtain enough to meet payrolls after another 3 weeks. They suggest that at least \$300,000 in 50 cents pieces be forwarded immediately by Army airplane for their use. They also state that the United States Army Engineers Division of the War Department should be consulted in this connection. Telegraph reply urgently requested.

ERWIN

815.515/131 : Airgram

The Minister in Honduras (Erwin) to the Secretary of State

TEGUCIGALPA, March 26, 1943—11 a. m.
[Received March 30—1 p. m.]

A-113. Reference Legation's despatch No. 2779, March 9, 1943 and No. 2808, of March 20, 1943 ⁴⁸ regarding currency difficulties in Honduras. Banco Atlántida has curtailed purchases of foreign exchange to an amount equal to sales, or roughly \$250,000 per month. Banco de Honduras plans to follow the same policy within the next

⁴⁷ Not printed.

⁴⁸ Neither printed.

3 weeks, which will limit its purchases of exchange to approximately \$175,000 per month. Anticipated offerings per month of exchange: United Fruit Company and Standard Fruit Company, \$400,000; Inter-American Highway bridge construction contractors, \$40,000; U. S. Coordinator's Office road construction, sanitation, and other projects, \$60,000; Rosario and Agua Fría Mining Companies, \$50,000; miscellaneous offerings \$50,000. Estimated total sales, \$425,000. Estimated total offerings: \$725,000. These statistics, arrived at by combining confidential figures given informally by banks, indicate situation extremely critical.

Banco Atlántida has informed the Inter-American Highway construction contractors that it can purchase a maximum of \$60,000 per month from them, or less than half of their present needs of \$125,000. The contractors expect their needs to increase sharply during the next few months.

Legation urgently requests immediate action be taken as indicated in final paragraph of despatch No. 2808.

ERWIN

815.515/125 : Telegram

The Secretary of State to the Minister in Honduras (Erwin)

WASHINGTON, March 29, 1943—10 p. m.

86. Your 75, March 22. This Government has no objection to the use of United States silver coins for internal circulation in Honduras and will cooperate in making such coins available. In view of the urgency of the matter, however, we wonder whether it would not be a better procedure for the Honduran banks to utilize gold to replace some of the lempira coins now held as reserves behind their deposits, under Article 18 of Decree No. 80 of March 11, 1937. Apparently, this would release more than 1,000,000 lempiras for actual circulation without violating any requirement of Honduran law. With this purpose in mind, could not the Exchange Control and Monetary Stabilization Commission sell to one or both of the banks the gold which it now has in custody deposit with them, totaling \$108,915? It appears that this would release 217,830 lempiras for circulation purposes.

To supplement this, might it be possible for gold to be purchased and placed on earmark at the Federal Reserve Bank of New York and counted as part of the reserve against lempira deposits.

As a third possibility it might be suggested that, if immediate receipt of gold is required, perhaps the Honduran Government or the Exchange Control Commission could purchase the gold in New York from the United States Government or in Mexico City, arrange for

shipment to Tegucigalpa, and subsequently allocate the gold to the banks.

Will regulations permit or can they be amended to permit the banks to hold gold as reserve for notes issued? If so, perhaps a further quantity of silver lempiras could be released for circulation.

Pending a decision on the question of utilizing gold, the United States Government will make preliminary arrangements for the shipment of silver coins which will be held in abeyance until the wishes of the Honduran Government are determined.

Please cable reply.

HULL

815.515/136 : Telegram

The Minister in Honduras (Erwin) to the Secretary of State

TEGUCIGALPA, March 30, 1943—4 p. m.

[Received 10:36 p. m.]

80. Reference Department's 86 of March 29, 10 p. m. Legation believes it not desirable to make suggestions to Honduran Government or the banks that the effective cash reserves of banks be reduced. See page 3 line 1, Legation's 2808, March 20.⁵⁰ Rumored possibility of banks closing. Also rumored possibility of resignation of Acting Minister of Finance ⁵¹ if decree No. 59 ⁵² does not effect solution. Situation extremely critical. Recommend Treasury Department and USED ⁵³ be notified and arrangements made so that shipments of United States 50-cents pieces can be made by airplane within the next few days if necessary.

ERWIN

815.515/132 : Telegram

The Minister in Honduras (Erwin) to the Secretary of State

TEGUCIGALPA, March 31, 1943—5 p. m.

[Received 9:06 p. m.]

81. Reference Legation's telegram No. 80, March 30. United Fruit Company proposes that its Boston office arrange with Federal Reserve Bank the exportation from the United States \$500,000 in United

⁵⁰ Not printed; the Minister is referring here to a paragraph of the despatch which explains why it was dangerous and legally impossible for the Banco Atlántida to purchase any more foreign exchange (811.51/5970).

⁵¹ Urbano Quesada.

⁵² Decree No. 59, described by the Minister in his despatch No. 2807, March 20, 1943 (811.51/5968), authorized the importation of \$1,500,000 in United States 50-cent and 10-cent pieces.

⁵³ United States Engineers Department.

States 50- and 10-cent pieces possibly by plane from Miami. Banco Atlántida proposes arranging with its New Orleans office exportation of \$250,000 in the same manner. Swinnerton, McClure, Vinnell, Inter-American Highway contractors, plan to make arrangements for exportation of at least \$250,000 through their San Francisco office. These exportations to be made within a few days. Urgently request Treasury make every effort to assist these shipments.

ERWIN

815.5151/230a : Telegram

The Secretary of State to the Minister in Honduras (Erwin)

WASHINGTON, March 31, 1943—10 p. m.

88. From Treasury. Your 80, March 30, 4 p. m. Apparently you did not understand the suggestion in the Department's 86.⁵⁴ The use of gold to satisfy reserve requirements was not intended to reduce the effective cash reserves of the banks. Lempira silver coins held as legal reserves are not effective reserves for meeting the public demands for cash. Under Honduran law it appears that gold would serve fully as well as silver lempiras for reserves against bank deposits. Apparently 2 or 3 million lempiras in coins are now immobilized as reserves in the banks. If gold were utilized to fulfill the deposit reserve requirement, a large number of these silver lempiras would become effective cash available for active circulation in Honduras and would no longer be immobilized in the banks. An existing reserve deficiency would apparently be remedied by a similar acquisition of gold.

However, in view of your statement that the situation is extremely critical, the silver 50-cent pieces are being made available in New York by the Treasury Department and the interested parties are discussing the problem of expediting shipment. [Treasury.]

HULL

815.515/135 : Telegram

The Minister in Honduras (Erwin) to the Secretary of State

TEGUCIGALPA, April 26, 1943—5 p. m.

[Received April 27—12:05 a. m.]

97. Reference Legation's airgram No. 113, March 26, 11 a. m., despatch No. 2845, April 1, and 2877, April 12, and telegram number 91, April 10, 5 p. m.⁵⁵

⁵⁴ March 29, p. 386.

⁵⁵ Despatches No. 2845 and No. 2877 and telegram No. 91 not printed.

Banco Atlántida and Banco de Honduras have curtailed purchases of foreign exchange to equal current sales or roughly \$425,000 per month, while offerings of foreign exchange remain at about \$725,000 per month. Local Pan American officials state they are unable to furnish transportation for bringing in United States silver currency and Taca⁵⁶ Air Lines can only bring approximately \$250,000 per month. Banco Atlántida has on one occasion been unable to furnish lempiras to one of its clients who wished to withdraw sight deposits in lempiras. Immediate reply requested as to whether a United States Army transport plane can be made available for one trip carrying approximately \$250,000 for the Banco Atlántida, Bank to pay all expenses.⁵⁷

ERWIN

S15.51/1033

*The Ambassador in Honduras (Erwin)*⁵⁸ to the Secretary of State

No. 194

TEGUCIGALPA, July 7, 1943.

[Received July 13.]

SIR: I have the honor to refer to the Department's instruction No. 1139, February 20, 1943, the Department's airgram No. 262, 6:30 pm, May 21, 1943, and the Embassy's airgram No. 256, of June 11, 11:00 am, 1943,⁵⁹ concerning the visit of the Financial Mission sent to Honduras by the United States Treasury Department at the request of the Honduran Government.

The Financial Mission arrived in Tegucigalpa on May 31, 1943, and consisted of Mr. E. M. Bernstein and Mr. John S. De Beers, representing the Treasury Department, Mr. A. T. Esgate, representing the Farm Credit Administration, and Mr. Robert A. Triffen, representing the Board of Governors of the Federal Reserve System. They were met by Mr. Jorge Coello, Assistant Chief of Protocol of the Honduran Foreign Office, Mr. Virgilio Galvez, Chief Clerk of the Honduran Ministry of Finance, and Mr. Robert Whedbee of the Embassy staff. Due to the absence of the Acting Minister of Finance from Tegucigalpa, no appointments were arranged for May 31, and the Mission spent the afternoon in discussion with members of the Embassy staff. On the morning of June 1, the Mission, accompanied by Mr. Coello, of the Foreign Office, and Messrs. Faust⁶⁰ and Whedbee

⁵⁶ Transportes Aéreos Centro Americano.

⁵⁷ The United States Army made the following shipments of silver coins: May 4, \$75,000; May 10, \$70,000; May 11, \$70,000.

⁵⁸ The American Legation in Honduras was raised to the status of Embassy on April 27, 1943, when Minister John D. Erwin presented his credentials as Ambassador.

⁵⁹ None printed.

⁶⁰ John B. Faust, Second Secretary of Embassy and Consul.

of the Embassy, called on President Carías, Foreign Minister Dr. Salvador Aguirre, and Acting Minister of Finance Dr. Urbano Quesada. The Mission was received quite cordially, and Dr. Quesada offered the full cooperation of his Ministry in furnishing any information which the Mission desired.

The Mission spent the next week interviewing important Honduran Government officials, bankers, merchants, agriculturalists, and the directors of the various United States' Government activities in Honduras. Most of the second week of the Mission's stay in Honduras was spent at important cities on the north coast of Honduras interviewing important persons in that area. Mr. Bernstein returned to the United States on June 11, and Mr. Esgate on June 16. Mr. Triffen and Mr. De Beers remained in Honduras until July 2, during which time they interviewed various officials and made a trip to Choluteca.

It is understood that the Mission took detailed notes of their various interviews, which are presumably available to the Department and therefore it appears unnecessary to review them at this time.

The Mission had not reached any definite conclusions as to what its recommendations would be when the members left Honduras. They indicated to the Embassy and to various Honduran officials however, that they were particularly interested in the question of the possible formation of a Central Bank, whose functions might be: (1) the control of foreign exchange, (2) the issuance and regulation of currency, (3) the supervision of private banks, (4) a repository of Government funds, (5) the repository of private bank reserves, (6) the discounting of bills, and perhaps (7) a source of loans to the Honduran Government. The Central Bank might also have a separate section devoted to agricultural credit, which would be subsidized from the present Governmental revenues for the Exchange Fund and the Cumulative Fund.

Members of the Mission planned to stop in Nicaragua and El Salvador briefly before returning to the United States in order to talk to officials connected with Governmental banking enterprises in those countries.

Respectfully yours,

JOHN D. ERWIN

811.51/6188 : Telegram

The Secretary of State to the Ambassador in Honduras (Erwin)

WASHINGTON, July 26, 1943—6 p. m.

192. From Treasury. Your 166, July 23, 1943, 3 p. m.⁶¹ Technical financial mission has prepared a preliminary report ⁶² on the currency

⁶¹ Not printed.

⁶² For extracts from this report, see *infra*.

shortage suggesting procedures which are thought to be more desirable than further importation of coins. It is suggested that if possible the Honduran Government delay new decree until it has had an opportunity to study the mission's report, which will be sent from Washington within a week. [Treasury.]

HULL

S15.51/1041

*Preliminary Report to the Honduran Government by the United States Technical Financial Mission to Honduras, July 31, 1943*⁶³

[Extracts]

II. RECOMMENDATIONS

Our recommendations in this preliminary report seek to attain the following objectives:

1. The provision of means to satisfy the demand for more currency, up to the limits of the probable increase in needs during the next few months;
2. A greater concentration of the foreign exchange reserves of the country, under the immediate control of the Honduran monetary authorities;
3. A first step toward the development of monetary institutions that can be effectively used in the best interests of the country;
4. The preservation of the national character of the Honduran circulating medium;
5. A full utilization of the additional issue of banknotes by the Banco Atlántida without the 50 percent offset in lempira reserves that would be required by existing legislation; and
6. A saving of the costs of bringing into the country additional silver coins which would have to be re-exported later.

A country which wishes to follow a policy of exchange stability must provide the monetary authorities with some means of buying the accumulating quantity of foreign exchange in those periods in which the international balance of payments is favorable. The lack of such a provision in the Honduran monetary system not only causes difficulty at present, under war-time conditions, but also will involve inconveniences in the future, for in the normal course of its development a country must provide for a growth in its exchange balances as well as an increase in its domestic circulation requirements. This preliminary report provides no permanent solution for the problem, but it does try to obtain the same effect now by other devices and to

⁶³ The final report of the Financial Mission to Honduras is entitled "Report of the Technical Financial Mission on Monetary and Credit Conditions in Honduras." (S15.51/1047)

give the public the local funds which it needs in exchange for foreign balances.

Measures to increase the available currency supply

The Mission recommends as a temporary measure that the lempira coins now immobilized in the banks' vaults as required reserves behind notes and deposits be progressively released for circulation, if and as the need arises; and that they be replaced in the banks' reserves by equivalent amounts of foreign exchange, deposited in special custody accounts, under the supervision of the Ministry of Finance and, if deemed advisable, of the Exchange Control Commission.

In order that Honduras may be able to deal effectively with possible exchange shortages in the future, the foreign exchange reserves of the country should be concentrated in the Exchange Control Commission and in the banks, rather than dissipated in the hands of the public in the form of foreign coins and notes, which might be hoarded in times of an exchange crisis, i.e., precisely at the moment when they would be most needed by the authorities. The recommendation presented in this preliminary report would seek to maintain a high degree of concentration of these reserves.

While this proposal of the Mission aims primarily at the solution of the present shortage of lempiras, it constitutes also a step in the direction of further reforms aiming at the modernization of the monetary institutions of Honduras.

Measures to reduce the demand for currency

To supplement the foregoing measures the Mission suggests that action be taken to reduce the demand for coins and banknotes in Honduras, by requesting the principal employers of the country (1) to distribute their payroll dates so that too many do not fall at the end or the middle of the month, and (2) to make more frequent payment of wages and salaries. The Government, as one of the largest employers, should of course take the lead in these changes.

Possible need for additional measures

The measures proposed here are expected to take care of the Honduran currency needs for the next half-year or more, by which time some new procedures may be available to deal with the problem. Nevertheless, other expedients may have to be utilized, if the difficulties continue. It is not too early to consider the various possible measures available to the Honduran Government, even though further action may not be required for some time. In this connection the Mission

offers its cooperation in the working out of additional steps or in consultation with respect to the suggestions made in this report.

815.515/150

The Ambassador in Honduras (Erwin) to the Secretary of State

No. 318

TEGUCIGALPA, August 21, 1943.

[Received August 24.]

SIR: I have the honor to refer to the Department's instruction No. 1362, dated August 3, 1943, and to the Embassy's telegram No. 178, of August 11, 1943, 5 pm,⁶⁴ regarding the preliminary report of the Technical Financial Mission to Honduras suggesting a temporary solution for the currency problem.

The report was duly presented to the Honduran Foreign Office and a copy given to the Minister of Finance on August 6, 1943. No comment of any kind has been received from the Honduran Government to date.

On August 12, 1943, there was published in the official government record, *La Gaceta*, Executive Decree No. 66, supplementing Decree No. 59, of March 18, 1943. Decree No. 66 authorizes the importation and temporary circulation of up to \$3,000,000 more of United States silver currency.

The Acting Minister of Finance, Dr. Urbano Quesada, has not been in Tegucigalpa since the publication of this decree. It is presumed, although no official confirmation is available, that the Technical Financial Mission's recommendation will not be acted upon.

The Embassy urgently requests that the Treasury Department and other interested agencies be informed that further United States currency is needed by Honduras, and that appropriate steps be taken to facilitate the shipment of such currency.

Respectfully yours,

JOHN D. ERWIN

811.515/2083

The Secretary of State to the Ambassador in Honduras (Erwin)

No. 1484

WASHINGTON, November 17, 1943.

The Secretary of State refers to the Embassy's despatch no. 204 dated July 8, 1943,⁶⁵ and previous correspondence concerning the circulation of United States currency in Honduras.

The Embassy, of course, is aware that considerable sums of fifty and ten cent pieces have been sent to Honduras from the United

⁶⁴ Neither printed.

⁶⁵ Not printed.

States in order to relieve the shortage in Honduras of United States currency in circulation. The Treasury Department has informed the Department that it is now in receipt of an application filed by the Whitney National Bank of New Orleans, Louisiana, on behalf of the Banco de Honduras, Tegucigalpa, for a license to permit the release of approximately \$500,000 in fifty cent and ten cent pieces which the Banco de Honduras contemplates sending to the United States. According to the Treasury Department, this application states that the termination of one of the contractor's projects makes it no longer necessary for this sum to remain in circulation.

This appears to be the first indication of the return to the United States of part of the sums of coins which were sent to Honduras. The Embassy is requested to investigate and report, including an expression of its views, concerning this matter, as well as the adequacy of the present amount of United States currency in circulation.

811.515/2214

The Ambassador in Honduras (Erwin) to the Secretary of State

[Extracts]

No. 601

TEGUCIGALPA, December 2, 1943.
[Received December 7.]

SIR: I have the honor to refer to the Department's confidential air-mail instruction No. 1484, dated November 17, 1943, regarding application received by the United States Treasury Department filed by the Whitney National Bank of New Orleans, Louisiana, on behalf of the Banco de Honduras, Tegucigalpa, for a license to permit the release of approximately \$500,000 in 50 cent and 10 cent pieces which it is claimed the Banco de Honduras contemplates sending to the United States.

In any event, it is not believed advisable to export any substantial amount of United States currency from Honduras at this time. Although it is true that the work of the United States Army Engineers on the Pan-American Highway in Honduras has been terminated, this work is being carried on at a reduced pace by the United States Public Roads Administration which it is believed will employ a substantial number of men even though not in the numbers heretofore employed by the United States Army Engineers and contractors.⁶⁶

Should it become evident that Honduran banks are holding undue amounts of American currency or that there is other reason to export

⁶⁶ For discussion and negotiations concerning the suspension of construction operations by the United States Army Engineers on the emergency Pioneer Highway project in Central America, see vol. v, pp. 76 ff.

substantial amount thereof, the matter will be promptly reported. For the present, it is recommended that action on the application be deferred. It would be unfortunate if substantial amounts of United States currency were exported from Honduras to the United States and then work on United States projects resulted in substantial employment necessitating the return of such exported United States currency to Honduras.

Respectfully yours,

JOHN D. ERWIN

MEXICO

DISCUSSIONS BETWEEN THE UNITED STATES AND MEXICO CONCERNING DEFENSE QUESTIONS

811.2222(1940)/2579

The Secretary of State to the Mexican Ambassador (Castillo Nájera)

The Secretary of State presents his compliments to His Excellency the Ambassador of Mexico and refers to his note no. 11061 of November 14, 1942¹ concerning alleged efforts of military authorities in the United States to induce Mexican citizens in the military service of the United States to become American citizens.

The Secretary of State has received a report on this matter from the agency to which it was referred for investigation. The report reads in part as follows:

"As you are aware, aliens who have been lawfully admitted to the United States and who serve honorably in the Army during the present war may be naturalized under the provisions of Title X of the Second War Powers Act, 1942 (Public Law 507, Seventy-seventh Congress),² upon proper application, without compliance with certain existing law concerning the naturalization of aliens generally. All noncitizens enlisted, inducted, or appointed in the Army of the United States are advised of their right to make such application, and of the procedure for so doing, upon their arrival at reception centers. All appropriate commanders have been directed to determine the number of eligible noncitizens within their commands who have served honorably in the Army for a period of at least three months since September 1, 1939, and who desire naturalization, and to aid in expediting the naturalization of such persons.

"The filing of the necessary application for naturalization and the execution of the required petition, which apparently is the document referred to in the copy of the note from the Mexican Embassy, are voluntary on the part of the person concerned. The War Department does not compel noncitizen soldiers to act in these respects. Persons who take the oath of enlistment, the oath prescribed for inductees, or the oath contained in the petition for naturalization are not recognized as naturalized solely by virtue of such action. The War Department does not consider noncitizen soldiers as naturalized until admitted to citizenship upon administration of the required oath of renunciation and allegiance after voluntary petition for that action."

¹ Not printed.

² 56 Stat. 176.

The Secretary of State calls attention to the fact that members of the armed forces can only be naturalized in the United States by a court authorized to naturalize aliens.

WASHINGTON, January 12, 1943.

740.0011 European War 1939/28247

The Chargé in Mexico (Bursley) to the Secretary of State

No. 7720

MEXICO CITY, February 24, 1943.

[Received March 2.]

SIR: I have the honor to refer to previous despatches which have reported from time to time the statements made by President Avila Camacho and other Mexican officials with reference to Mexico's participation in the war, and to report that to *La Prensa's* correspondent at Córdoba, Veracruz on February 20, the President is said to have declared:

"that every war must go on to its end (referring to the recent declarations of the United Nations); that Mexico is cooperating in the same plan that it has promised to do although the war is receding farther and farther away from our Continent every day and what there is too many of on the battlefronts is men.

"Mexico, consequently, will not send men to the war nor have we received from them (the United Nations) the least hint that we should; our obligation up to now continues to be production."

Respectfully yours,

For the Chargé d'Affaires, a.i.

HAROLD D. FINLEY

First Secretary of Embassy

812.24/3-1843

Agreement Between the United States and Mexico Regarding Principles Applying to Mutual Aid in the Prosecution of the War, Signed at Washington, March 18, 1943

Whereas the Governments of the United States of America and the United Mexican States declare that they are engaged in a co-operative undertaking, together with every other nation or people of like mind, to the end of laying the bases of a just and enduring world peace securing order under law to themselves and all nations;

And whereas, in conformity with the Declaration of Lima of December 24, 1938 and Declaration XV approved July 30, 1940 at the Second Meeting of the Ministers of Foreign Affairs of the American Republics held at Habana, and in harmony with the spirit and

purpose of the Third Meeting of the Ministers of Foreign Affairs of the American Republics held at Rio de Janeiro, the Governments of the United States of America and the United Mexican States have determined to cooperate further in the defense of the security and integrity of all the American Republics against acts of aggression directed against any of them;

And whereas the Governments of the United States of America and the United Mexican States, as signatories of the Declaration by United Nations of January 1, 1942, have subscribed to a common program of purposes and principles embodied in the Joint Declaration made on August 14, 1941 by the President of the United States of America and the Prime Minister of the United Kingdom of Great Britain and Northern Ireland, known as the Atlantic Charter;

And whereas the President of the United States of America, pursuant to the Act of the Congress of the United States of America of March 11, 1941, and the President of the United Mexican States have determined that the defense of each of the American Republics is vital to the defense of all of them;

And whereas the United States of America and the United Mexican States have extended and will continue to extend to each other respectively aid in resisting aggression;

And whereas the Governments of the United States of America and the United Mexican States are mutually desirous of concluding an agreement for the providing of defense articles and defense information by either country to the other country, and the making of such an agreement has been in all respects duly authorized, and all acts, conditions and formalities which it may have been necessary to perform, fulfill or execute prior to the making of such an agreement in conformity with the laws either of the United States of America or of the United Mexican States have been performed, fulfilled or executed as required;

The undersigned, being duly authorized by their respective Governments for that purpose, have agreed as follows:

ARTICLE I

The Agreement concluded by the United States of America and the United Mexican States on March 27, 1942 for the providing of defense articles, defense services, and defense information by either country to the other country, shall cease to have effect upon the signing of the present Agreement. All deliveries of defense materials or defense information by either country to the other country or any payments made by either country to the other country in accordance with the terms of the Agreement concluded by the United States of America and the United Mexican States on March 27, 1942

shall be deemed to constitute deliveries or payments in accordance with the terms of the present Agreement.

ARTICLE II

The Government of the United States of America will continue to supply the Government of the United Mexican States with such armaments and munitions of war as the President of the United States of America shall authorize to be transferred or provided.

ARTICLE III

Should circumstances arise in which the United States of America in its own defense or in order to collaborate in the defense of the Americas shall require defense articles, defense services or defense information which the United Mexican States are in a position to supply, the Government of the United Mexican States will make such defense articles, defense services and defense information available to the United States of America, to the extent possible without harm to its economy and under terms to be agreed upon.

ARTICLE IV

The Government of the United Mexican States undertakes that it will not, without the consent of the President of the United States of America, transfer title to, or possession of, any defense article or defense information received under this Agreement, or permit the use thereof by anyone not an officer, employee, or agent of the Government of the United Mexican States.

Similarly, the Government of the United States of America undertakes that it will not, without the consent of the President of the United Mexican States, transfer title to or possession of any defense article or defense information received in accordance with Article III of this Agreement, or permit the use thereof by anyone not an officer, employee, or agent of the Government of the United States of America.

ARTICLE V

If, as a result of the transfer to the Government of the United Mexican States of any defense article or defense information, it is necessary for that Government to take any action or make any payment in order fully to protect any of the rights of any citizen of the United States of America who has patent rights in and to any such defense article or information, the Government of the United Mexican States will take such action or make such payment, when requested to do so by the President of the United States of America.

Similarly, if, as a result of the transfer to the Government of the United States of America of any defense article or defense information, it is necessary for that Government to take any action or make any payment in order fully to protect any of the rights of any citizen of

the United Mexican States who has patent rights in and to any such defense article or information, the Government of the United States of America will take such action or make such payment, when requested to do so by the President of the United Mexican States.

ARTICLE VI

The terms and conditions upon which each Government receives the aid provided under this Agreement by the other Government shall not burden commerce between the two countries, but shall promote mutually advantageous economic relations between them and the betterment of worldwide economic relations. To that end, the two Governments will make provision for agreed action by the United States of America and the United Mexican States open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded governments.

Certain terms and conditions upon which each Government receives certain specified items provided under the Agreement by the other Government are set forth in the attached exchange of notes, which is an integral part of this Agreement.

ARTICLE VII

This Agreement shall continue in force from the date on which it is signed until a date agreed upon between the two Governments.

Signed and sealed in Washington, in the English and Spanish languages, in duplicate, this eighteenth day of March, 1943.

For the Government of the United States of America:

CORDELL HULL

Secretary of State of the United States of America

For the Government of the United Mexican States:

F. CASTILLO NÁJERA

*Ambassador Extraordinary and Plenipotentiary
of the United Mexican States in Washington*

812.24/3-1843

The Secretary of State to the Mexican Ambassador (Castillo Nájera)

WASHINGTON, March 18, 1943.

EXCELLENCY: I have the honor to refer to the conversations between the representatives of the Governments of the United States of America and the United Mexican States in connection with the Agreement on the Principles Applying to Mutual Aid in the Prosecution of the War against Aggression, signed this day.

The conversations referred to have disclosed a mutual understanding on the part of the Governments of the United States of America and the United Mexican States with respect to the application of the provisions of the Agreement, as follows:

1. The Government of the United States of America will endeavor, subject to unforeseen contingencies and within the limits imposed upon it by law and by other military demands, to transfer to the Government of the United Mexican States during the present emergency armaments and munitions of war to a total scheduled cost of about \$40,000,000 (currency of the United States of America).

2. In respect of defense articles, services or information transferred to the Government of the United Mexican States pursuant to paragraph 1, above, the Government of the United States of America agrees to accord to the Government of the United Mexican States a reduction of 67 percent in the scheduled cost of such articles, services or information; and the Government of the United Mexican States promises to pay in dollars into the Treasury of the United States of America 33 percent of the scheduled cost of the defense articles, services or information delivered. The Government of the United Mexican States shall not be required to pay more than a total of \$2,200,000 before January 1, 1944, more than a total of \$4,400,000 before January 1, 1945, more than a total of \$6,600,000 before January 1, 1946, more than a total of \$8,800,000 before January 1, 1947, more than a total of \$11,000,000 before January 1, 1948, or more than a total of \$13,200,000 before January 1, 1949.

3. The Government of the United Mexican States may return to the United States of America at the end of the present emergency as determined by the President of the United States of America such defense articles transferred pursuant to paragraph 1, above, as shall be determined by the President of the United States of America in consultation with the President of the United Mexican States to be useful in the defense of the United States of America, and upon the return of such defense articles to the United States of America the Government of the United Mexican States shall be credited for any sums paid or for any sums which it is obligated to pay for such defense articles under the terms of paragraph 2, above.

4. With reference to Article III of the Agreement signed this day, such defense aid as may be rendered to the United States of America by the United Mexican States shall, upon mutual agreement of the two Governments as to the evaluation of such aid, be credited to the account of the Government of the United Mexican States for any sums

paid, or for any sums which it is obligated to pay, under the terms of paragraph 2, above.

I would appreciate receiving Your Excellency's confirmation of the correctness of this understanding.^{2a}

Accept [etc.]

CORDELL HULL

811.2222(1940)/4685

The Mexican Ambassador (Castillo Nájera) to the Secretary of State

[Translation]

No. 3365

WASHINGTON, May 27, 1943.

MR. SECRETARY: I have the honor to quote below to Your Excellency the contents of a communication which the Consul of Mexico at San Diego, California,³ has sent to this Embassy:

"Starting on the date on which there was communicated to this Consulate the Convention entered into between our country and the United States, of January 22nd last,⁴ relative to military service, the corresponding steps have been taken in behalf of certain Mexicans residing in Tijuana, Baja California, who, either because of working or of having been born on the American side, registered for military service. These steps have been taken in order to have them released from the obligation to serve in the armed forces in this country, because of residence in Mexico and their being registered for military service in our country also, on the basis of Article IV of the Agreement mentioned.

"Notwithstanding, the Local Boards mentioned are continuing to call them, and in the majority of cases they have been adjudged delinquents, the corresponding warrant for their arrest being issued.

"As the communications of this Consulate are not answered, they have been called by telephone, and the excuse which they give is to the effect that they do not know of the Agreement in question and that when they have consulted the State Selective Service Coordinator or Director regarding the cases, the reply has been given them that the persons concerned are not protected by any law or agreement and that they must induct them or issue the warrant for their arrest as delinquents. For this reason, I am taking the liberty of sending to you a list of the cases of Mexicans, all residents of Tijuana, that are pending settlement; they had *at least two years of residence in Mexican territory before the Agreement mentioned was signed.*"

For which reason I request Your Excellency to be good enough to order the necessary steps to be taken in order that the Local Boards in the State of California may be instructed regarding the procedure which they are to follow in cases of this nature, in conformity with the Agreement mentioned, which is in effect.

^{2a} Ambassador Castillo Nájera's note of confirmation dated March 18, 1943, not printed.

³ Elisio Ruiz Russek.

⁴ For text of the Agreement, signed at Washington, see Department of State Executive Agreement Series No. 323, or 57 Stat. (pt. 2) 973.

Your Excellency will please find enclosed, a list ⁵ of cases in which the Consul of Mexico at San Diego, mentioned above, has made representations in behalf of Mexicans before the respective Local Boards, on the basis of the Agreement on military service, between Mexico and the United States, of January 22nd of the present year, which representations have been ineffective.

I present [etc.]

F. CASTILLO NÁJERA

811.2222(1940)/5013

The Mexican Embassy to the Department of State

[Translation]

No. 3986

WASHINGTON, July 6, 1943.

The Embassy of Mexico presents its compliments to the Department of State and has to refer to recent conversations between its representatives with officials of the War Department and of National Selective Service Headquarters, with a view to providing a practical procedure whereby the Government of the United States shall furnish to the Government of Mexico the information required under Paragraph VI of the Reciprocal Agreement of January 23 [22], 1943.

As until now it has been impossible to solve the difficulties to be met by the United States military authorities in furnishing this information with respect to Mexican nationals already serving in the armed forces of the United States of America, the Embassy is of the opinion that it is absolutely necessary to agree upon a system whereby the Government of Mexico shall be able to communicate immediately with those of its nationals who, although registered under Selective Service, have not yet been incorporated into the United States Army. In this way, while there is being sought a way to furnish the Government of Mexico the most ample information possible regarding those of its nationals already in the ranks of the Army of the United States, at least it would be possible to prevent the daily further increase of those difficulties which are being caused by the lack of data with respect to these Mexicans.

With this in view, the Embassy of Mexico requests that the name of its country be included in the list of cobelligerent nations constituting Paragraph 10 of Memorandum No. 129 ⁶ that the National Selective Service Headquarters is planning to send the local boards and that, consequently, its nationals be sent that letter, a draft of which was kindly given by the Selective Service officials to the representatives of the Embassy.

⁵ Not printed.

⁶ Concerned with countries with which the United States had agreements on military service. This was one of a series of memoranda issued by the National Headquarters, Selective Service System, Washington.

740.0011 European War 1939/315934

*The Ambassador in Mexico (Messersmith) to the Under Secretary
of State (Welles)*

MEXICO, July 6, 1943.

DEAR SUMNER: The other day while Padilla ⁷ and I were discussing some major factors in our relationships and particularly with respect to the situation in Mexico, he referred to a conversation which he had with you either in Monterrey or Corpus Christi with respect to the possible participation of elements of the Mexican armed forces in the conflict. Padilla said that he felt more and more that it was desirable for some elements of the Mexican armed forces to participate in the actual conflict. He said that the situation within the country was on the whole developing satisfactorily but that naturally Mexico was further away from the war and that it was difficult for the great masses of the people to appreciate all of the implications of the war for Mexico and Mexico's responsibility. This was even more so now that the probability of attack on this continent was more remote. He said that during the last weeks increasingly high ranking officials of the Mexican army had spoken to him about what they considered the real importance and interest of elements of the Mexican armed forces taking part in the conflict. They all realized the practical difficulties in the way but they felt, as military men, that it was not in accord with Mexico's dignity and her place among the United Nations that her army did not bear a part of the sacrifices of the war. He said it was very interesting that these officers were very outspoken and definite in their opinion and he was sure that the President shared their opinion. He said that a good many of the high ranking officers felt chagrined that General Cárdenas ⁸ should have made a statement some time ago that Mexico could not take any actual part in the armed conflict because her men had nothing to fight with and they resented his statement.

Padilla said that the thing which preoccupied him was that the United Nations, or at least most of them, were making so many sacrifices in the way of blood and treasure and that these would undoubtedly increase before the end of the war came. He considered it very probable that there would have to be a land invasion of Europe before the end of the war and that this would involve very heavy sacrifices in blood. He could understand that there would be quite an internal reaction among the people of the United States to the effect that some of the other American Republics had not done their share in the way of actual sacrifice. He personally, and he was sure the President, felt the way some of these high military officers felt, that

⁷ Ezequiel Padilla, Mexican Minister for Foreign Affairs.

⁸ Gen. Lázaro Cárdenas, Mexican Minister for Defense.

it would be a very good thing all around if there could be some participation by Mexican elements in the actual conflict. He did not know how this could be done but he thought it would be desirable to explore the situation.

I told him that there were many difficulties in the way of having elements from the armed forces of the other American Republics participating in the conflict. These, I was sure, were familiar to him. Among these was the question of transport, organization and command. I agreed with him, I said, that it would be desirable to have such elements participate in the conflict, particularly from Mexico and Brazil. As I saw it, however, it would be exceedingly difficult to arrange for the present for elements of the army to participate—although this also was a subject which should receive consideration. In my opinion the most practical way would be to have Mexican pilots as a Mexican escadrille participate at the front. I saw few fundamental difficulties in the way of this, for the Mexican army now had a considerable number of trained pilots and all they needed was a little further final training before being able to fly combat ships. I said that I thought the idea of a Mexican flying unit was one which could be considered, but of course I was not able to pass any final word on this.

Padilla said that he thought it would be a splendid thing if arrangements could be made for a Mexican and Brazilian flying unit to participate in actual combat in aerial warfare at some of the fronts. He thought this was an entirely practicable and feasible idea and it would be a fine entering wedge. It was something which could be arranged with small delay and was entirely practical from practically every point of view. He thought that it could easily be confined at the outset to a Mexican and Brazilian unit. He said that he would be very glad if I would explore this idea with you entirely informally for the present and he asked me when doing so to refer to the conversation which he had had with you in this respect during the exchange of visits between the two Presidents.

My own feeling is that it would be desirable to do something along these lines, and as I think the question of army units is impracticable still, it would be desirable to do something from the point of view of an air unit. Our Army and Navy officials recognize the fact that the Mexican pilots are excellent. All they need is a little extra training. There would seem to be no fundamental difficulty in having a Mexican and Brazilian air unit participate on the actual combat fronts.

I believe it would be a good thing to explore this with the Secretary and with the President and with our military officials, and to let me have an initial reaction which I can give to Padilla and to the Presi-

dent. I am sure that Padilla had talked this over with the President before he mentioned it to me the other day. Of course the explorations should be informal and confidential and there should be nothing publicly said about this until decisions may be reached.

. . . I think the most feasible approach is through air combat units. I should be very happy if you would explore this situation and let me know the reactions in an altogether informal and confidential way which I can pass on to Padilla and the President.

With all good wishes,

Cordially and faithfully yours,

G. S. MESSERSMITH

811.2222(1940)/4897

The Secretary of State to the Mexican Ambassador (Castillo Nájera)

WASHINGTON, July 13, 1943.

EXCELLENCY: I have the honor to refer further to your note no. 3365 of May 27, 1943, in which you state that a number of Local Boards of the Selective Service System appear to be ignorant of the provisions of the agreement entered into between our Governments on January 22, 1943.

This matter has received consideration by the Director of Selective Service,⁹ who has now informed the Department that copies of the agreement in question have been transmitted to the State Directors of the States adjoining Mexico, with instructions that copies of the agreement are to be sent to Boards which are known by the State Directors to have a large number of Mexican registrants. The Director of Selective Service has expressed the opinion that this procedure will be sufficient to cure any lack of understanding that may exist among Local Boards.

Accept [etc.]

For the Secretary of State:
[File copy not signed]

811.2222(1940)/5013

The Secretary of State to the Mexican Ambassador (Castillo Nájera)

The Secretary of State presents his compliments to His Excellency the Mexican Ambassador and has the honor to acknowledge the receipt of the Ambassador's note no. 3986 of July 6, 1943, requesting the inclusion of Mexico in a memorandum addressed to Selective Service Local Boards by the Selective Service System, relating to countries with which reciprocal agreements on military service matters have been concluded.

⁹ Maj. Gen. Lewis B. Hershey.

The Embassy's desire for the inclusion of Mexico in that list has been brought to the attention of the Selective Service System. It will be recalled, however, that in the informal discussions that have taken place on this subject, the Embassy was informed that the Selective Service System does not find it possible to prescribe any special regulations or procedure concerning Mexican registrants. Accordingly, the procedure referred to in Local Board Memorandum no. 129 of the Selective Service System will be applicable to Mexican registrants in exactly the same manner as to registrants of other nationalities.

WASHINGTON, July 15, 1943.

S11.3312/431

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 11656

MEXICO, July 20, 1943.

[Received July 26.]

SIR: Supplementing the Embassy's despatch No. 9498 of April 20, 1943,¹⁰ respecting the possibility of American warships being granted the privilege of obtaining ship supplies free of duty from bonded warehouses in Mexico, I have the honor to transmit herewith a copy and translation of a note dated July 10, 1943¹⁰ from the Foreign Office, which is self-explanatory. It will be noted that instructions have been issued to the competent Mexican customs authorities to permit United States war vessels to obtain duty-free supplies and that such ships may likewise despatch into bonded warehouses all sorts of war supplies for subsequent use without the payment of any charges.

Respectfully yours,

For the Ambassador:
SIDNEY E. O'DONOGHUE
Second Secretary of Embassy

S12.24/3199½

The Mexican Embassy to the Department of State

MEMORANDUM

As a result of prevailing conditions, as regards transportation facilities between the Peninsula of Lower California, Mexico, and the rest of the country, for a long time residents of Lower California have been dependent upon foodstuffs and other supplies obtained in the United States, particularly in nearby cities of California.

¹⁰ Not printed.

To supplement available supplies for 4,000 men stationed in Lower California, 1,500 daily rations are required from the United States for such members of the Mexican Army in the Second Military Zone.

The matter was taken up by the Mexican Section with the United States Section of the Joint Mexican-United States Defense Commission¹³ and with Mr. Kempter, of the Office of Lend-Lease Administration, both of which express their willingness to extend this cooperation, once the Department of State is approached, as is done by means of this memorandum, and advises Major General Guy V. Henry, Joint Mexican-United States Defense Commission, and Mr. Kempter, Office of Lend-Lease Administration, that it has no objection.

WASHINGTON, August 30, 1943.

740.0011 European War 1939/315933

The Ambassador in Mexico (Messersmith) to the Chief of the Division of the American Republics (Bonsal)

MÉXICO, D. F., August 31, 1943.

DEAR PHILIP: On July 6th, after a long conversation with Dr. Padilla, I wrote to Mr. Welles with regard to the possibility of Mexican armed forces participating in the actual conflict. I did not hear from Mr. Welles and, as Dr. Padilla made reference to this matter again and asked whether I had had a reply to my exploratory letter to Mr. Welles, I wrote to Mr. Welles again on August 5¹⁴ in which I said that Dr. Padilla had raised the question of the possibility of a Mexican air squadron, or squadrons, participating on the actual fighting fronts with our forces. My letters to Mr. Welles of July 6 and August 5 are self-explanatory, and if you have not seen them, I am sure you will wish to read them.

I have a confidential letter from Mr. Welles, dated August 14,¹⁴ stating that the question raised in my letters of August 5 and July 6 has been taken up with our military people at home and that he has been informed that upon the receipt of a formal proposal from the Mexican Government attentive consideration will be given to the military and strategic factors involved in such participation.

I took opportunity yesterday during a conversation with Dr. Padilla to go into this matter with him, and I told him that if the Mexican Government would make some formal proposal it would be possible for our military and naval authorities to consider it. I said

¹³ Creation of the Commission was announced on January 12, 1942, for the purpose of studying common problems of defense and of recommending cooperative measures to care for these problems.

¹⁴ Not printed.

that he would appreciate that our people would need something rather concrete to consider before they would be able to really give an answer. The Minister said that he would discuss this matter with the President and let me know the result of the conversation.

This letter is merely to keep you informed of the status of this matter.

With all good wishes [etc.]

G. S. MESSERSMITH

812.24/3199½

Memorandum of Conversation, by the Liaison Officer With the War and Navy Departments (Wilson)

[WASHINGTON,] September 3, 1943.

Major Hickman¹⁵ called this morning at my request. I invited his attention to the request from the Mexican Embassy to this Government to furnish food rations for Mexican troops stationed in Lower California and charge the expense to Mexico's credit under the Lend-Lease agreement.¹⁶ I stated that in the opinion of the Department it would not be advisable to do so as food cannot be properly classified as "armaments and munitions of war." The Department therefore desired to inquire whether it might not be possible to assist the Mexican Government by selling to it for cash the necessary rations from stocks of the United States Army at fair and reasonable prices.

Major Hickman replied that the War Department had been apprised of this matter about two months ago by General Henry¹⁷ of the Joint Mexican-United States Defense Commission. General DeWitt¹⁸ was then consulted. He replied that under his present authorization for release of material to the Mexican Army, he would be unable to provide the food, and (2) he felt he would incur difficulties with the local ration authorities in California if he should endeavor to buy these rations in the open market. I gathered that General DeWitt feared that owing to the food situation in the southern part of California, he would incur criticism from the officials of the Price Administration and the public should it become known that the provisions were destined for Mexico. On receipt of General DeWitt's answer General Henry was duly informed and a suggestion was made to him that he might approach the officials of the Lend-Lease Administration for their views and possible decision. In this connection Major Hickman informed me that no suggestions were made by the War Depart-

¹⁵ Maj. George E. Hickman, Operations Division, War Department General Staff.

¹⁶ Signed at Washington March 27, 1942, *Foreign Relations*, 1942, vol. VI, p. 485.

¹⁷ Gen. Guy V. Henry.

¹⁸ Lt. Gen. J. L. DeWitt, Office of the Commanding General, Western Defense Command.

ment to General Henry that the provisions might be purchased by Mexico under the Lend-Lease agreement.

Major Hickman told me that he would consult Colonel Hertford¹⁹ and other officers in an endeavor to ascertain whether an appropriate method could be found to assist the Mexicans. I expressed the hope that this could be done as the Department did not desire to modify the strict construction of the Lend-Lease agreement.

740.0011 European War 1939/315937

The Chief of the Division of the American Republics (Bonsal) to the Ambassador in Mexico (Messersmith)

WASHINGTON, September 6, 1943.

DEAR MR. AMBASSADOR: Your letter of August 31 was most helpful. As you know, the Mexican-United States Defense Commission is having a meeting in Mexico City in the very near future. Shortly following the receipt of your letter Larry²⁰ and I ascertained that the United States section of that Commission was completely ignorant of any of the recent developments regarding the possibility of Mexican armed forces participating in combat duty. Your letter drew our attention to this lack of liaison and it has now been remedied.

I have furthermore taken the position that it would be most dangerous for the Mexicans to prepare a "formal proposal" without some guidance from us. It seems to me that we might have some kind of informal expression as to the specific ideas which the Mexicans are entertaining regarding such a proposal before we allow the matter to get into the formal stage. I understand, of course, that nothing will happen until the President of Mexico gives his consent in principle to the formulation of a proposal.

With warm regards,

Sincerely yours,

P[HILIP] W. B[ONSAL]

812.244/1

The Department of State to the Mexican Embassy

MEMORANDUM

The Department of State has to refer to a memorandum dated August 30, 1943, from the Embassy of Mexico regarding the matter of obtaining fifteen hundred daily rations from the United States for

¹⁹ Col. K. F. Hertford, Latin American Section, Operations Division, War Department.

²⁰ Laurence Duggan, Adviser on Political Relations.

members of the Mexican Army stationed in the Second Mexican Military Zone in Lower California.

The Department of State is advised that the military authorities of the Government of the United States in California will be glad to lend their good offices in the matter of facilitating the purchase by the military authorities of the Government of Mexico of the supplies in question, and would be glad to learn whom the military authorities of Mexico might desire to designate to discuss this matter.

WASHINGTON, September 11, 1943.

S11.2222(1940)/5078

The Secretary of State to the Mexican Ambassador (Castillo Nájera)

The Secretary of State presents his compliments to His Excellency the Ambassador of Mexico and has the honor to refer further to the Ambassador's note no. 4195 of July 20, 1943 concerning the selective service status of Mexican nationals who departed from the United States prior to May 16, 1942.²¹

This matter was referred to the Director of Selective Service, who has now informed the Department as follows:

"We enclose a copy of Local Board Memorandum No. 112 issued by this Headquarters and invite attention to paragraph 1 of Part V which provides that local boards are instructed to cancel the registration of nondeclarant alien registrants who left the United States prior to May 16, 1942, and have not returned. The memorandum attached is the only instruction which has been issued to local boards on the subject generally."

The Director of Selective Service adds that he does not believe that the provision mentioned will entitle a Mexican national who lived in the United States after October 16, 1940, and who left this country prior to May 16, 1942, to have his registration canceled and be issued an Alien's Certificate of Nonresidence (Form 303), if he retained property in this country or regularly crossed the border after leaving. Persons in this status did not leave the United States permanently and do not come within the provisions of paragraph 1 of Part V of Local Board Memorandum No. 112.

The Director of Selective Service further states that information has been received from State Directors in certain States in the Southwest area of this country advising that various registrants, who are Mexican citizens, have established a residence across the border in Mexico but continue to attend to their businesses in the United States.

²¹ Not printed; in it the Mexican Ambassador contended that Mexicans who presented evidence of residence in Mexico prior to May 16, 1942, were exempt from the United States draft.

A person in this situation, he states, cannot be considered as a non-resident of the United States for the purposes of Selective Service and must comply with all laws, regulations and orders of the Selective Service System.

A copy of local Board Memorandum No. 112, to which the Director of Selective Service referred, is enclosed.²²

WASHINGTON, September 20, 1943.

811.2226/429

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 13101

MÉXICO, D. F., September 20, 1943.

[Received September 29.]

SIR: I have the honor to inform the Department that the Mexican Foreign Office recently handed me an informal draft of an exchange of notes providing for the reciprocal exchange of military deserters. There is enclosed a copy of the suggested draft along with the translation thereof.²³

The military and Naval attachés and the Chancery of this Embassy are in agreement as to the desirability of such an arrangement. At present it is possible but difficult to obtain the return to the United States of military deserters through the operations of the Mexican immigration and other laws. So far there have been only a limited number of cases of American deserters in Mexico but the individuals involved have been of particularly undesirable types and have caused loss of prestige to the United States during the period of time necessary to effect repatriation. It is to be assumed that as time goes on there might be a substantial increase in the number of deserters coming here. These deserters are apt to be criminals or otherwise of such character as to cast discredit upon our country. From our point of view it would, therefore, seem to be wise to anticipate the possible increase in desertions and to have established the machinery for the return of the deserters to the United States. From the Mexican point of view, some such procedure also seems to be desirable. The Mexican military authorities inform us that because of high wages now prevailing in the United States, they anticipate an increase in the number of deserters from the Mexican armed forces. They are anxious to prevent these desertions from their forces into our country. It is quite possible that the existence of such an arrangement would tend to discourage the desertion of Mexicans and this, in an indirect sense, should also be helpful to our Immigration authorities.

²² Not reprinted.

²³ Not printed.

The Department is requested to inform this Embassy whether the attached draft would be acceptable to our Government. If the draft is not acceptable, it would be helpful to the Embassy to have a counter-draft for informal presentation to the Mexican authorities.

Respectfully yours,

G. S. MESSERSMITH

740.0011 European War 1939/32530

The Ambassador in Mexico (Messersmith) to the Chief of the Division of the American Republics (Bonsal)

[Extracts]

MÉXICO, D. F., November 9, 1943.

DEAR PHILIP: You will recall the secret correspondence which I had with former Under Secretary Welles²⁴ covering my conversations with the President and with the Foreign Minister, Dr. Padilla, on Mexican participation through its armed forces at the combat fronts. You will recall the more recent correspondence which covered the developments during the stay of General Marshall²⁵ in Mexico City and the stay of Admiral Johnson²⁶ and General Henry. You will recall that the matter was left that if the Mexican Government had any concrete proposal to make in this direction, our military authorities and our Government would be prepared to consider it.

You will recall that in my letters I said that I thought the Mexican Government would prefer for the present to maintain its contact on this matter through the President and the Foreign Minister and this Embassy and that I thought it desirable that the matter be kept out of the Joint Mexican-United States Defense Commission until the matter had become somewhat clarified as to the real Mexican intent.

Since the departure of General Marshall and of Admiral Johnson and General Henry I have not discussed this matter with the President of Mexico. I have discussed it in a very informal way on several occasions with Dr. Padilla and have left it clear that the initiative was now up to the Mexican Government to make some concrete proposal. On this point there is no misunderstanding and I think it is definitely our desire that the approach should come from them, if any is made, and that we should not push them towards any action.

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I know that the President and the Foreign Minister have been thinking in terms of one or more squadrons of air men who might

²⁴ The resignation of Sumner Welles was announced on September 25, 1943. See Department of State *Bulletin*, September 25, 1943, p. 208.

²⁵ Gen. George C. Marshall, Chief of Staff, United States Army.

²⁶ Vice Adm. Alfred W. Johnson, Chairman, United States Section, Joint Mexican-United States Defense Commission.

after due training participate at some of the combat fronts. This to my mind is the only feasible form of Mexican participation to begin with. It is to my mind the only feasible form from the political point of view as well as from the practical point of view. Although Mexican public opinion is better prepared for such participation, there is a good section of the public opinion which is not yet prepared for it. I think, therefore, that it is unlikely that the Mexican Government will make any proposal for sending land troops. I know that the President and the Foreign Minister will think in terms of air squadrons because they are realistic.

With all good wishes [etc.]

G. S. MESSERSMITH ²⁷

740.0011 European War 1939/32530

Memorandum by the Chief of the Division of the American Republics (Bonsal) ²⁸

[WASHINGTON,] November 18, 1943.

I wonder whether President Avila Camacho's remarks as heard over the radio yesterday morning do not tend to solve our problem of Mexican participation in actual combat.²⁹ The impression which I gather is that there is no great enthusiasm in the President's mind for any large-scale Mexican participation and I should also judge that the President does not plan to take any initiative.

Heretofore our attitude has been one of receptiveness toward any Mexican initiative. It now appears to me that we should probably get together with the War Department and work out some proposal to be submitted informally through Ambassador Messersmith to President Avila Camacho. This proposal would be based upon the fact that we have at present in training sufficient ground troops for the military operations contemplated but that we would welcome Mexican assistance in the air. I think the War Department could prepare something rather specific for Ambassador Messersmith. If you think well of this idea, might it not be desirable for us to have a meeting with Colonel Hertford in order to agree upon methods of procedure.³⁰

PHILIP W. BONSALE

²⁷ Initialed by Herbert S. Bursley, Counselor of Embassy, with notation: "Dictated by the Ambassador but not read."

²⁸ Addressed to the Adviser on Political Relations (Duggan) and to the Liaison Officer (Wilson).

²⁹ The President indicated that under certain circumstances Mexican soldiers would take part in the war within Mexico or outside of the country.

³⁰ The following comment by Mr. Duggan appears on this memorandum: "I favor checking with Amb. M. before we discuss with War Dept." Mr. Wilson added this notation: "I concur with Mr. Duggan. In checking with the Am-

812.001 Camacho, Manuel/250 : Airgram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, December 3, 1943—11 a. m.

[Received December 6—3 p. m.]

A-2770. With reference to the Embassy's confidential despatch No. 14262 of November 17, 1943,³¹ regarding President Avila Camacho's speech of November 16, 1943, in regard to Mexico's armed forces and possible participation in the war:

Questioned by reporters while visiting a dam under construction at Riego, State of Puebla, yesterday, the President is reported widely in today's newspapers as having stated: "Up to the present time our Allies have not requested Mexican contingents to fight at the fronts of the present world conflict. But we face this eventuality. I have tried to foresee everything because we must be prepared for any contingency. If what I said in my speech is studied, pertinent deductions can be made therefrom." While the President is quoted in slightly different terms by the various newspapers, the above, translated from *El Universal*, is the generally reported sense of his statement.

MESSERSMITH

811.2226/433

The Secretary of State to the Chargé in Mexico (Bursley)

No. 5135

WASHINGTON, January 18, 1944.

SIR: The Department refers to the Embassy's despatch no. 13101 of September 20, 1943, transmitting an informal draft of an exchange of notes providing for the reciprocal exchange of military deserters. The Ambassador states that the draft was handed to him by the Mexican Foreign Office.

The draft was submitted to the War and Navy Departments for their comments. The War Department stated in its reply that the laws of military service of Mexico and the Selective Service laws of the United States are radically different and added that, in its opinion, it would be inadvisable to enter into an agreement with Mexico based upon a similarity of the operation of those laws. The War Department pointed out, for instance, that the proposed agreement goes far beyond the return of deserters from the armed forces of Mexico and would oblige the United States to return not only deserters from the active forces but also those classified as deserters from the reserves

bassador we should make it clear that, owing to the War Dept's views, he should not discuss the matter now, even informally, with the Mexican officials. O. W."

³¹ Not printed.

and those who have been recruited or registered for military service. As the Military Service laws of Mexico are understood to require the registration for military service of all male Mexicans when becoming eighteen years of age and to render such persons liable for military service—active or reserve—until they are forty-five years of age, the proposal of the Mexican Government would oblige the United States to return to Mexico upon demand any such person whom the Mexican Government desired to classify as a deserter. Upon further inquiry the War Department advised the Department that it does not consider that any agreement on the subject with the Mexican Government is necessary.

The Navy Department has stated that it is agreeable to the terms of the agreement submitted by the Mexican Government but suggests that in addition to any arrangement which the Department of State may consider proper and valid consideration be given to utilizing the immigration and deportation laws of the United States.

The Department agrees with the War Department that the proposal of the Mexican Government is unacceptable. In its present form it would oblige this Government to return to Mexico persons who might be liable for military service under the Selective Training and Service Act of 1940, or who might be in the armed forces of the United States. As any arrangement based on an exchange of notes would not have the effect of changing existing laws or of enabling this Government to return to Mexico persons who cannot now be returned, no purpose is seen in entering into such an arrangement. The number of deserters from the United States forces who are in Mexico seems to be small and it seems probable that a like condition exists as to deserters from the active forces of Mexico who are in the United States. No reason is seen why, with good will on both sides, such deserters cannot be returned without an agreement of the kind proposed. It may be added that some months ago the Department had under consideration with the Canadian Government the question of an agreement concerning the return of deserters from the military forces of both governments and it was concluded that such an agreement was not necessary.

Very truly yours,

For the Secretary of State:
EDWARD R. STETTINIUS, JR.

**AGREEMENT BETWEEN THE UNITED STATES AND MEXICO DEFINING
THE MILITARY SERVICE DUE BY NATIONALS OF EACH COUNTRY
RESIDING IN THE OTHER, SIGNED JANUARY 22, 1943**

[For text of the Agreement, signed at Washington, see Department of State Executive Agreement Series No. 323, or 57 Stat. (pt. 2) 973.]

THE ESTABLISHMENT OF THE MEXICAN-AMERICAN COMMISSION FOR
ECONOMIC COOPERATION

812.50/323

Press Release Issued by the Department of State, April 29, 1943

As a result of the welcome opportunity afforded by the reciprocal visits made by President Roosevelt and President Avila Camacho,³² respectively, in Mexican and United States territory, the two Presidents reached the following agreement:

1. It is considered desirable that expert economists undertake the study of disturbances in the balance of international payments and the related economic situation of the Republic of Mexico resulting from the peculiar circumstances of war economy in order to recommend appropriate measures of regulation and adjustment.

2. Such measures would have as their objective the handling of economic relationships between the two countries in such a way that the production of strategic materials by Mexico should not be prejudiced and that their quantity should not be lessened and in order to ensure the stability of such production and its possible development, it is recognized that the cooperation of the United States will be indispensable.

3. To this end and in order to assure that the economic relations between the two countries be continued on the most equitable basis, it has been decided:

I. To create an economic committee made up of two representatives from each country which will study the balance of international payments and the resulting economic situation of the Republic of Mexico and formulate as the result of such study a program for economic cooperation.

II. This committee will fix as its place of meeting either Mexico City or Washington and in the course of its studies the committee will be afforded by both governments all necessary information.

III. This committee will commence its studies May 15 and will conclude its deliberations not later than June 15 of the present year.

812.50/333

Press Release Issued by the Department of State, May 25, 1943

The inaugural session of the Mexican-United States commission of experts to formulate a program for economic cooperation between the two Governments, took place this afternoon in the office of the Under Secretary of Commerce, the Honorable Wayne C. Taylor. The Mexican Ambassador, His Excellency Francisco Castillo Nájera, attended and opened the inaugural session.

³² For President Roosevelt's address at Monterrey, see Department of State *Bulletin*, April 24, 1943, p. 348. A Spanish version of his speech and that of President Camacho appear in the *Memoria de la Secretaría de Relaciones Exteriores*, 1942-1943, pp. 405-410.

The Mexican delegates are Mr. Evaristo Araiza, General Manager of the Monterrey Steel Works, Monterrey, Mexico, and Mr. Valentin R. Garfías, a well-known mining engineer. Representing the United States are the Honorable Wayne C. Taylor, Under Secretary of Commerce, and Dr. Harry White, Assistant to the Secretary of the Treasury. The secretaries to the respective delegations are Dr. Jesus Silva Herzog of the Mexican Ministry of Finance, and Dr. Augustus Maffry of the United States Department of Commerce.

The joint commission, assisted by the technical advisers from the interested agencies of their respective Governments, will meet from time to time from this date on. It is contemplated that after a number of sessions here in Washington the experts and their advisers will proceed to Mexico for a period of time, returning to Washington to terminate their work. The thirty-day period in which the experts are to complete their work will begin from the inaugural session today.

812.50/347

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 11,035

MEXICO, June 29, 1943.

[Received July 2.]

SIR: . . .

Just before leaving for Washington on Saturday, June 26, Mr. Valentin Garfías, a member of the Mexican Commission, summed up his idea of the accomplishments of the joint Commission as follows. He said that in reality the Mexicans viewed the short-term accomplishments as satisfactory, but that too much stress and space had been placed on long-term projects. He said the Mexican people were expecting immediate results and that, if in the announcements and final documents to be signed, the short-term benefits were not stressed, the Mexican people would gain the impression that another commission had ended its labors without giving immediate relief from a bad economic situation. Mr. Garfías emphasized that immediate benefits so far agreed to were satisfactory and that they should by all means be stressed. He added that the projects for the future were also praiseworthy, but that they should occupy less space and prominence than those agreements designed to give immediate relief. Mr. Garfías made one further observation. He said that the Mexicans realized that there were many Departments and Agencies of Government in Washington which must give their consent before many of the important agreements reached by the Mexican-American Com-

mission for Economic Cooperation could become effective. He said that he and a number of the higher officials of the Mexican Government were quite confident that a satisfactory agreement would be reached by the Commission, but they carried in the back of their minds the apprehension that when there are too many fingers in the pie it is apt to be spoiled. Actually what he meant does not need any explanation, as "too many fingers in the pie" refers to our many Agencies of Government upon which the fulfillment of the Agreements depends.

Respectfully yours,

For the Ambassador:
THOMAS H. LOCKETT
*Counselor of Embassy
for Economic Affairs*

812.50/347a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, July 5, 1943—noon.

1087. Report of Mexican-American Commission with only minor changes has been initialed by delegates of both countries. Portion of report to be published is to be presented to President Roosevelt by Secretary Hull today or tomorrow.³³ Araiza is to present an identical copy to President Avila Camacho today. Annexes³⁴ to report which are not to be published have not as yet been completed and will be presented to President Roosevelt later this week.

It is understood that upon the agreement of President Avila Camacho the portion of the report to be published will be released jointly in Mexico City and Washington. The Department has no objection to the joint release with the exception of one sentence on page 2 which reads as follows: "The specific recommendations of the Commission appear in an annex to the general report which follows." The Department feels that either no reference should be made to the annexes which are not to be published or it should be specifically stated that the annex or annexes cannot be revealed for the duration of the war for security reasons.

The Department will await word from you regarding the time of the joint release of the general section of the report. A copy of the general section of the report is being airmailed to you.

HULL

³³ For texts of the report here referred to and of the letters exchanged between the two Presidents, see Department of State *Bulletin*, July 17, 1943, pp. 38-46.

³⁴ Not printed; the annexes consisted of detailed reports on various proposed commodity and power production projects, financial and monetary plans, etc. (812.50/402).

812.50/400

The Secretary of State to the Chargé in Mexico (Bursley)

No. 4187

WASHINGTON, September 9, 1943.

The Secretary of State informs the Embassy that during the past few weeks there has been considerable discussion of the Report of the Mexican-American Commission for Economic Coordination within the Department and in Interdepartmental Committees with particular reference in each instance to the possibilities for its prompt implementation. While the information given in the reports of the various committees is reasonably complete, nevertheless, in certain cases further investigation apparently is needed before active support should be given to all recommended projects by the Department. In two types of projects particularly there appears to be insufficient information as a basis for decisions on the granting of export licenses and priority assistance, i.e., the Department is in doubt as to whether support should be given to all of the cement and irrigation projects which were recommended. Each class of project will be considered in turn.

Irrigation Projects:

In the Sub-Committee's report on agriculture, various irrigation projects are strongly recommended, in addition to El Palmito. The Sub-Committee states that "emphasis must be laid on the completion of projects that are furthest advanced and which will make the greatest contribution to the war effort of the United Nations and to the essential economy of Mexico." The Report thus indicates that the present state of completion should be depended upon to determine priority. However, of the projects listed in Appendix G to the Sub-Committee's Report, nine are shown to be less than twenty percent completed and four of these less than ten percent completed. In view of this fact, state of completion is of little significance in determining priority. Surely other factors are likewise of significance in establishing priority; for instance the amount of equipment needed for completion, the acreage which will be released for cultivation, the location of that acreage in relation to the location of consuming markets, and the type of crop for which the acreage is adapted.

It is considered that the determination of priority is highly essential. The completion of all of the nineteen projects recommended would require a substantial amount of equipment in short supply, such as trucks, trailers, plows, excavators and pumps. In view of this fact, it does not appear at all likely that sufficient equipment can be made available, either second-hand or new to complete all projects. Licenses covering small amounts of equipment are currently being

approved but in order to guide the various interested agencies, it appears to the Department that priority should be established through additional study by the Embassy in cooperation with the appropriate Mexican authorities.

Cement:

In accordance with the Commission's recommendations, all possible aid is being given to secure needed materials for Fábrica de Cemento, Estación Lagunas, Oaxaca; and Cemento de Mixcoac, S. A. Through the completion of these projects, together with the other five projects included in the short-range or immediate expansion of the cement industry, the rated annual production capacity of Mexico will be increased approximately forty-six percent above the 1942 level (from 651,600 to 950,400 tons). If and when the other cement projects listed by the Commission are completed, the rated capacity will be increased an additional seventy percent to 1,607,400 tons. Applications for export licenses have been received covering certain of these projects and are now pending before the Office of Economic Warfare or the War Production Board.

It is not probable that the War Production Board will release the equipment necessary, both new and second-hand, for all of these projects. Therefore, it is necessary to ascertain which of them are the most deserving of support by the Department. There may be some doubt as to whether all are needed in view of the fact that if all were furnished equipment and put into operation, the rated capacity for production of cement in Mexico would be approximately three times the capacity in 1942.

In view of these recommendations, it is requested that the Embassy further investigate the need for additional cement plants and indicate those which the Department should support in the Office of Economic Warfare and the War Production Board. Although it is recognized that this may make necessary a short delay in further expansion, such a delay is not considered too important in as much as the short-range program to meet emergencies in the cement supply has been largely completed.

812.50/406

The Ambassador in Mexico (Messersmith) to the Secretary of State

[Extracts]

No. 13,159

MÉXICO, D. F., September 24, 1943.

[Received September 29.]

SIR: . . .

The American Commissioners³⁵ agreed that a coordinated and over-all development of the economy of Mexico, centered in a single Commission, would bring much more satisfactory results than a number of separate commissions working on specialized subjects without coordination. Mr. Taylor pointed out that the suggestion made by the Mexican Commissioners of an over-all economic commission was very similar to the way an Embassy coordinates the various activities undertaken by it. For example, an Embassy, headed by an Ambassador, is the over-all body which coordinates within itself all activities of the American Government in a given country. It has its special sections and officers that operate in specialized fields, such as the Military and Naval Attachés, the Agricultural Attaché, the Commercial Attaché, the political officers, the consular officers, etc. Although these specialized sections and officers operate in their particular fields, they are all coordinated under the supervision and direction of the Embassy and the Ambassador. Mr. Taylor pointed out that the Mexican suggestion to convert the present Industrial Commission into an over-all economic development commission was nothing other than the plan now followed by an Embassy with its various specialized sections and officers. The American Commissioners agreed with the Mexican Commissioners that the two Governments should be very urgently requested to consider the present Commission as a continuation of the former Mexican-American Commission for Economic Cooperation, with facilities as broad as those of the latter.

In summary, the points being placed before the Department for action are, 1) that the present Industrial Commission be considered as a continuation of the Mexican-American Commission for Economic Cooperation, with facilities as broad as those of the latter and with a field of action as vast as may be necessary for the study of the general problems of economic cooperation between the two countries, and 2) that the name of the present Commission be changed to Mexican-American Commission for Economic Cooperation.

³⁵ Members of the Mexican-American Industrial Commission established pursuant to the report of the Mexican-American Commission for Economic Cooperation.

There is one additional important point to which the Department's attention is respectfully directed. During discussions between the American and Mexican Commissioners, there was always an emphasis on the importance of a rapid clearance of recommendations which would be made by the Commission through the Embassy to the Department and then to the claimant and licensing Agencies of our Government. A copy of all recommendations and other documents pertaining to the Commission will be forwarded through the Department to the Coordinator of Inter-American Affairs. At the same time, the regular number of copies are being forwarded for the use of the Department. The members of the Commission here in Mexico and the officers of the Embassy charged with such work will study and examine each recommendation which is forwarded to Washington. As always, on recommendations of importance the Ambassador will be fully consulted. Under the circumstances, the Department is requested to indicate its action on the recommendations which it receives from the Embassy to the American Commissioners in Washington as quickly as possible. Messrs. Rockefeller and Taylor stated that they would confer with the Department concerning the establishment of a liaison between them and the Department with respect to these matters. Also, it was left for decision in Washington as to who, or, which Agencies or Department in Washington would be the claimant before the War Production Board. The Commission feels quite sure that it will receive the fullest cooperation of the Department relative to the rapid despatch of recommendations which are forwarded to it by the Commission through the Embassy.

The Embassy is quite confident that the Mexican-American Industrial Commission has gotten off to a rapid and successful start. The splendid cooperation and aid of Ambassador Messersmith and high officials of the Mexican Government give further assurance that the results desired by the two Presidents will be largely realized.

Respectfully yours,

For the Ambassador:
THOMAS H. LOCKETT
*Counselor of Embassy
for Economic Affairs*

812.50/407a

The Secretary of State to the Chargé in Mexico (Bursley)

No. 4344

WASHINGTON, September 28, 1943.

The Secretary of State encloses with this communication a copy of a memorandum on the present status of projects recommended by the Mexican-American Commission for Economic Cooperation dated

September 20, 1943.³⁶ This is a slightly revised memorandum based on one dated September 10, 1943 which was transmitted to the Embassy some days ago by third person and without comment.

This memorandum, it will be observed, consists of two sections one of which indicates the present status of the recommended projects while the other attempts to classify these projects on the basis of status. In the second section of the memorandum there are sixteen projects listed for which applications have not as yet been submitted to the Office of Economic Warfare. Although, quite obviously, the recommendations of the Commission on specific projects cannot be implemented until applications are submitted to the Office of Economic Warfare, nevertheless, it is suggested that no particular effort be made by the Embassy to stimulate the immediate submittal of applications on these projects. It is considered more advisable to let the projects mature in a normal manner rather than to urge immediate action at this time unless instructions to do so on specific projects are received from the Department. Otherwise the presumption might be established in the minds of interested parties that approval of applications when submitted on recommended projects would be extremely likely if not certain. In reality the fact of recommendation by the Commission is simply additional evidence that a project has unusual merit and should be accorded all possible consideration by the various Government agencies entrusted with the power of decision on such matters.

The Embassy is requested to go over this memorandum carefully in an attempt to determine whether there are either errors of fact or statements of opinion which are not in conformance with the considered judgment of responsible officers in the Embassy. The Department requests any additional information on the recommended projects which may be available in Mexico and which, it is considered, is of sufficient importance for transmittal. It is anticipated that further statements in regard to the status of projects will be prepared at periodic intervals.

812.24/3369 : Airgram

*The Acting Secretary of State to the Ambassador in Mexico
(Messersmith)*

WASHINGTON, October 25, 1943—5:30 p. m.

A-2756. Embassy's airgram A-2307 of October 8, 1943, and airgram A-2324 of October 11, 1943,³⁷ concerning the project application of

³⁶ Not printed; it recommended two agricultural projects (El Palmito Dam and miscellaneous irrigation plans); eight hydroelectric and diesel plants; the completion or equipping of eight steel mills; the equipping of eight cement plants; one project each for rubber and sugar industries; the equipping of six pulp and paper factories; two chemical projects; three textiles projects; and the equipping of two miscellaneous factories.

³⁷ Neither printed.

Cía. Fundidora de Fierro y Acero de Monterrey for \$325,000 of materials and equipment; also Embassy's despatch no. 12906 of September 11,³⁸ concerning the project application of Cía. de las Fábricas de Papel de San Rafael y Anexas, S.A., for completion of a Kraft Pulp Plant. It is noted that in both the airgram and despatch under reference the Embassy indicates its desire that the necessary machinery and equipment be supplied outside of Mexico's estimate of supply for general requirements and the existing estimate of supply for projects. It is noted that for this reason the Mexican Imports Coordination Committee has not issued an Export Recommendation in either case.

As the Embassy is no doubt aware, the estimate of supply set aside for general requirements and for country projects represents the total amount of materials (including B products) which the War Production Board has indicated can be made available out of total production, after taking into account the requirements of the armed forces, the civilian requirements of the United States, the requirements of our fighting Allies, and the requirements of the Latin American republics other than Mexico. Therefore, it is impossible to supply critical materials and equipment to Mexico outside of its allocation, without a corresponding reduction in the amount of materials supplied to meet other requirements. It is, of course, possible to accommodate small requests outside of allocation, by charging these to the contingency reserve which is maintained for that purpose. However, when the materials are substantial in amount, the Office of Economic Warfare can only accommodate the request by securing an additional allocation or by increasing its overall request to the War Production Board in subsequent quarters.

It is noted that the above two projects are not the only projects which the Embassy or the Industrial Commission have recommended for licensing outside of allocation. If these projects are approved and materials provided by increasing the requests presented to the War Production Board, it is inevitable that the requirements for Mexico must be supplied at the expense of the requirements of our armed forces, our own civilian requirements or other export requirements. Production of materials is not yet sufficient to meet all necessary requirements of the war effort. Even more critical is the production of machinery and equipment, because of the shortage of skilled labor in the United States. The Embassy is, therefore, again cautioned to approve only essential projects. Such projects should be covered by Export Recommendations in all cases. Wherever there is an existing estimate of supply, a charge should be made thereto. If this is impossible because of the relatively small estimate of supply, the Em-

³⁸ Not printed.

bassy should recommend an increase in subsequent estimates of supply. It should be realized that such large projects cannot be passed without some sacrifice on the part of the Mexican general requirements. How great this sacrifice will be must be decided in Washington in the light of other demands upon supply.

The Embassy is therefore informed that under present procedures of the Office of Economic Warfare, an Export Recommendation will be required for the expansion of the facilities of Cía. Fundidora, as well as for the Kraft Pulp Plant of Cía. de las Fábricas de Papel de San Rafael y Anexas, S. A. It is further suggested that, if the Mexican Estimates of Supply are insufficient to provide the materials required by these Projects, the Embassy indicate the maximum amounts of materials which may be charged to the regular estimates of supply without interfering with the normal minimum requirements of Mexico's wartime economy and the extent to which it will be necessary to increase subsequent estimates of supply if these projects are authorized.

The War Production Board has indicated informally to the Department that in all probability, it will not approve the San Rafael Project. It must therefore be emphasized that the chances of securing favorable action at the War Production Board in the case of both Projects will be substantially enhanced if a considerable portion of the Project requirements may be met from the regular Mexican Estimates of Supply.

STETTINIUS

812.24/3638

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 14,309

MÉXICO, D. F., November 19, 1943.

[Received November 27.]

SIR: I have the honor to refer to the Department's airgram No. 2756 of October 25, 1943 advising the Embassy and the Resident Member of the Mexican-American Commission³⁹ for Economic Cooperation that all projects recommended by the Embassy or the Commission should be accompanied by export recommendations for materials and products included in the projects and which are under an estimate of supply. The Embassy and the Resident Commissioner are cautioned not to expect any appreciable increase in estimates of supply and, therefore, to approve only those projects of the greatest necessity. The Department in the aforementioned airgram explains that the War Production Board established estimates of supply for

³⁹ Presumably A. W. Patterson, Assistant to the Commissioners and Secretary of the American Section of the Mexican-American Industrial Commission.

Mexico after determining the quantity of materials which could be spared from the war effort of the Allied Nations and, consequently, should the estimates of supply for Mexico be substantially increased it would have to be done at the expense of the armed forces, the civilian population of the United States or the estimates of supply for the other nations.

The Embassy does not raise any question as to the soundness of the policy adopted by the Department and the other interested agencies of the Government. It is realized that the armed forces must come first and that Mexico must be content to share equitably with the civilian population of our country and with the other nations allied with us for the war effort. Nevertheless, it is very true that the conversation between President Camacho and President Roosevelt in Monterrey resulted in the formation of the former Mexican-American Commission for Economic Cooperation and, as a result, Mexico received the impression that it was intended that something special would be done to aid it in the development of its industrial, agricultural and other types of economic development. At the recommendation of the former Mexican-American Commission for Economic Cooperation the present Commission of the same name was created and is now functioning. During the first two meetings of the present Commission further encouragement was given to the Mexicans that they would receive special consideration in reference to materials and equipment for the construction of urgent and essential industries. The foregoing has been related so that the Department and the interested agencies of our Government will see that the Mexicans have been encouraged to have false hopes. If the policy to be followed by the Commission is that of recommending only those projects containing materials under estimate of supply which can be spared from the general requirements, then, the usefulness of the Commission in aiding economic development through the establishment of essential industries during the war emergency would be negligible. Under such circumstances the Commission would be principally confined to studying and recommending industries for construction and development after the emergency period. The Mexicans are principally interested in the assistance that they can secure now or during the period of emergency and they believe the Commission was established in a large measure for that purpose. They realize that long-term planning is a very advantageous thing but they feel that after the war equipment will be in much freer supply and Mexico will be able to purchase materials and develop industrially with little interference. Whether their viewpoint will prove to be right or wrong, that is the way they feel. They wish to receive all assistance for long-time industrial development which the Commission can render, but, their principal

and vital interest is in what the Commission can do for them during the emergency.

When the Mexicans are advised that export recommendations for materials under estimate of supply must accompany projects recommended by the Commission, it will be a great disappointment to them. It is unfortunate that in the beginning they obtained the impression that they would receive some special consideration and assistance for industrial development during the emergency period. Two members of the Mexican section of the Mexican-American Commission for Economic Cooperation received word indirectly from Washington that materials and equipment under estimate of supply which form a part of a project recommended by the Commission would have to be in part or in whole deducted from Mexico's general requirements. The statement of these two Mexican Commissioners to the American Resident Commissioner was to the effect that if this proved to be true it would be a great disappointment to the Mexican Government and to the Mexican people because the effectiveness of the Commission would be seriously reduced.

According to the Department's instruction No. 4768 of November 15, 1943 ⁴⁰ and discussions already held with officials of the Mexican Government in relation to a "roll-back" of the decentralization plan,⁴¹ it is very probable that many types of machinery, including industrial machinery, will be removed from decentralization and the requirement of export recommendation on January 1, 1944. If this takes place, then Mexico will not be issuing export recommendations for industrial machinery and, therefore, there will not exist any means of complying with the instruction contained in airgram 2756 of October 25, 1943. The Foreign Economic Administration will be issuing licenses without a reference to the Mexican Government and the latter will not be in a position to say whether or not its general requirements will stand a deduction for an industrial project because it will have no knowledge of what has or what has not been licensed in Washington.

I am sure that the Department will readily understand that the Mexican-American Commission for Economic Cooperation is in quite a quandary at the present time as to just what procedure it should follow in recommending industrial projects. During this period of uncertainty I have recommended to the Resident American Commissioner that the American section of the Commission proceed with its detailed study of all projects presented to it by the Mexican section. I have requested that the American section study with great care the machinery requirements of each project so that when it is recom-

⁴⁰ Not printed.

⁴¹ For correspondence on the plan to decentralize export controls, see vol. v, pp. 106 ff.

mended it will contain the maximum of used equipment in order to reduce the requirement for new machinery and scarce materials. I have further requested that projects requiring immediate or prompt delivery of substantial quantities of new equipment be recommended only after a very careful consideration of their urgency.

Relative to the instruction contained in the airgram No. 2756 of October 25, 1943 to the effect that all projects recommended by the Commission should be accompanied by an export recommendation for materials under estimate of supply, I am sure that the Department will readily understand that the Mexican Government has already issued export recommendations which will absorb the estimates of supply up to January 1, 1944 and, therefore, no further recommendations can be issued against the estimate for this year. As it now seems probable that new machinery and equipment will not require export recommendations after January 1, 1944, it will be impossible for the Commission to comply with the Department's instruction. However, as the Commission will use the greatest care and discretion in recommending industrial projects which require prompt delivery of new machinery, I feel confident that it will be complying as closely as possible with the Department's wishes until further instructions are received in regard to its procedure.

Respectfully yours,

G. S. MESSERSMITH

ARRANGEMENTS FOR PROVIDING AMERICAN WHEAT AND CORN TO MEXICO

812.5018/14

The Secretary of State to the Mexican Ambassador (Castillo Nájera)

WASHINGTON, January 25, 1943.

EXCELLENCY: I have the honor to refer further to Your Excellency's note no. 10377 of October 15, 1942,⁴² expressing the hope that arrangements may be effected to make it possible for Mexico to import between 150,000 and 200,000 tons of wheat of American origin, F.O.B. Laredo, Texas, at an approximate price of \$1.00 per bushel. I also refer to my note of December 18, 1942,⁴² in which you were informed that, in view of Mexican interest in and need for wheat, the Department of Agriculture was prepared to institute a wheat export program on the basis of payments in connection with exports not to exceed 25 cents per bushel.

I have now received a report from the Secretary of Agriculture informing me that the program was announced on December 2, 1942 on the basis of an export subsidy of 20 cents per bushel. He further

⁴² Not printed.

informs me that on January 12, 1943 the subsidy rate was increased to 25 cents per bushel.

Referring to further developments in this connection, the communication from the Secretary of Agriculture reads in part as follows:

We are informed that the Mexican Government has just negotiated contracts for the purchase of around 21½ million bushels of Canadian wheat, and that it was planned to move this grain through the United States by rail. I am informed, however, that the War Production Board and the Office of Defense Transportation, in the interest of national defense and the war effort, are opposed to the use of large quantities of United States rail equipment and labor for such an extended haul and have accordingly taken steps to halt such movement. This decision was taken in the light of the fact that the United States has large stocks of wheat in Texas and Oklahoma, which are readily available for shipment to Mexico.

We trust that the Mexican Government may be made fully aware of the strain now being placed on United States rail transportation facilities by the expanding war effort and informed that the proposed movement of Canadian wheat across the United States would seriously interfere with defense needs of the United Nations. At the same time, however, I would like to point out that the Department of Agriculture, through its action in raising the subsidy rate to the maximum level of 25 cents per bushel, will be making wheat available at Laredo, Texas, basis present market prices, at approximately the same net price basis reported in the recent Mexican purchase of Canadian wheat.

Accept [etc.]

For the Secretary of State:
SUMNER WELLES

812.5018/23

*The Chief of the Division of the American Republics (Bonsal) to the
Ambassador in Mexico (Messersmith)*

WASHINGTON, May 13, 1943.

MY DEAR MR. AMBASSADOR: As there may be some reaction in Mexico, we think it would be well for you to have some background information on the following matter:

In October of last year, the Mexican Embassy addressed a note to this Department asking this Government to assist Mexico to obtain between 150,000 and 200,000 tons of wheat in the United States, F.O.B. Laredo, Texas, at a price of about one dollar a bushel.

Eventually arrangements were made for the establishment of a wheat export program whereby the Department of Agriculture would pay a subsidy of 25 cents per bushel on wheat bought by foreign governments in accordance with this program, thus providing for a lower price. In the case of Mexico, arrangements were made for a subsidy which in the beginning was 25 cents a bushel and later 30 cents a bushel, on some five million bushels of wheat in January and,

apparently, between one and three million bushels more wheat during recent months.

Recently, the Department of Agriculture found that it would be necessary to stop granting this subsidy, as the funds which Agriculture had had for this purpose had been exhausted. In the circumstances, the Department of Agriculture found that its subsidy program would have to expire May 14, 1943, at 2 p. m., and published a statement to that effect.

On May 12, the Mexican Chargé d'Affaires⁴⁴ called on me to discuss this matter. He pointed out that Mexico had devoted much of her efforts to the production of war and other materials, and had diverted this effort from wheat producing. He said that Mexico had done this on the basis of her belief that she was able to buy wheat either from Canada, from the United States, or from the Argentine. He said that wheat was currently available in Canada for a little bit under a dollar a bushel and that Mexico would be glad to buy it there, but that she realized our transportation situation was such it would be difficult to be able to take care of large wheat shipments by rail from Canada to Mexico. He then said that Mexico wanted to contract for seven and one-half million bushels of wheat prior to the expiration of the program, and he asked for all possible assistance from the Department.

In the premises, I telephoned Mr. Leslie A. Wheeler, Director of Foreign Agricultural Relations, shortly after the Chargé left my office. Mr. Wheeler said he would look into the matter and would call me back this morning. He called me back around 10 o'clock today and said that he was very sorry but Agriculture was not in a position to make available to the Mexican Government for this wheat the export subsidy which had heretofore existed. Accordingly, this was communicated immediately to the Mexican Embassy.

From what I gather, the quantity of wheat available next month will be about what it is today. There is no doubt in our minds but that the Mexicans are simply anxious to avoid paying the full price for the wheat. Actually, of course, they would only be paying the full domestic price next month. If it is considered that the subsidy on the wheat they now request runs to two and a quarter millions of dollars, you will readily see how it is that there is some hesitation in pushing this matter further. Also, this would mean that the consumer in this country would have to pay about \$1.50 for wheat while the consumer in Mexico would get his wheat on a basis of \$1.20 a bushel.

There does not seem to be any assurance that Agriculture will endeavor to renew its export subsidy program the next fiscal year.

⁴⁴ Rafael de la Colina.

If it is renewed, Mexico will of course be in a position to share in its benefits equally with any other countries to which it may be granted.

So far as shipping wheat from Canada to Mexico is concerned, I may say that it is estimated a shipment of two million bushels would require about 1,500 freight cars according to figures of the Office of Defense Transportation. I have not checked these figures, but I assume they are accurate. Obviously, it would be just about impossible to allocate the 5,500 [1,500] freight cars necessary for such a shipment. Also, I wonder as to the capacity of the Mexican railroads to handle such a sudden, large influx of cars.

I am enclosing a copy of a memorandum ⁴⁶ on this matter.

Should anything new develop, I will send it down to you immediately.

With best wishes,

Sincerely yours,

PHILIP W. BONSAI

812.5018/30 : Airgram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, July 26, 1943—7 p. m.

A-2208. The following for your background information in the event the Foreign Office should discuss with you its request for 15,000 tons of corn: On July 22 the Mexican Embassy sent the Department a memorandum ⁴⁶ stating that instructions had been received from Mexico City to take up with the Department the matter of obtaining as a loan of between 15,000 and 20,000 tons of corn to be returned by the Mexican Government within a period of one year. The memorandum stated that the Mexican Government was prepared to make a bank deposit for the appropriate amount concerned.

We explored the matter with Agriculture and, through that Department, the Commodity Credit Corporation. Both of these agencies have informed us that they have no government corn to lend or for sale, and that there is no corn on the free market in this country for the present.

In the event that corn comes on the market we will of course do everything possible to help the Mexican Government procure the corn.

For our information, would you please have Mallory ⁴⁷ explore the situation with respect to the present demand for corn in Mexico and whether the corn which the Mexican Government now wishes to obtain would be used purely for purposes of food supply or for purposes other than food.

HULL

⁴⁶ Not printed.

⁴⁷ Lester D. Mallory, Agricultural Attaché.

812.5018/7-2843

*The Chief of the Division of the American Republics (Bonsal) to
the Ambassador in Mexico (Messersmith)*

WASHINGTON, August 4, 1943.

DEAR MR. AMBASSADOR: I have your letter of July 28, 1943, and I have also seen your letter of July 30⁴⁸ written to McGurk,⁴⁹ regarding Mexico's request for 15 to 20 thousand tons of corn. I assure you that we have thoroughly explored the situation here through Agriculture and Commodity Credit Corporation. There is not a ton of corn to be had on the market in any place in the United States according to these two agencies, and there is no possibility of requisitioning it. The farmers just will not sell their corn and it is not coming on the market.

Just prior to your telephone conversation with McGurk this morning we had been exploring with Agriculture and Commodity Credit the possibility of getting some corn from Cuba. We learned that Commodity Credit had bought up the Cuban surplus and that there was a possibility of obtaining some of it for Mexico. Shortly thereafter Mr. de la Colina, the Counselor of the Mexican Embassy, telephoned McGurk and said that they had had an urgent message from the Foreign Office in Mexico City to request us to explore the possibility of obtaining on an urgent basis up to 15,000 tons of Cuban corn through our agencies. We have this under way now, and Commodity Credit has promised to let us know in two days just how much corn can be delivered to Mexico. We have informed the Mexican Embassy that the transaction must be on a cash basis and they have agreed. Mr. McGurk will keep you currently informed of the progress we may make toward getting some Cuban corn to satisfy the Mexican demand.

With warm regards
Sincerely yours,

P[HILIP] W. B[ONSAL]

812.5018/49

The Ambassador in Mexico (Messersmith) to President Roosevelt

MÉXICO, D. F., September 23, 1943.

DEAR MR. PRESIDENT: During the last two months or six weeks, the President of Mexico and high officials of the Mexican Government have been speaking to me about the serious situation which has developed already in Mexico with respect to corn.

⁴⁸ Neither printed.

⁴⁹ Joseph F. McGurk, Assistant Chief, Division of the American Republics.

Corn, as you know, is the staple food of the great mass of the twenty millions of Mexicans. Ordinarily, Mexico is self-sufficient with respect to corn and it is the principal crop of the country. There have been corn shortages in the past due to droughts or bad crops, but in that case, it was always easily possible to import corn from us to make up the deficit.

As a result of the programs of various agencies of our Government interested in the procurement of strategic agricultural products, in this case particularly oil-bearing seeds, we have entered into a number of agreements with Mexico for the production of such oil-bearing seeds. As a result, the farmers in the lowlands, which, as you know are the more tropical areas in Mexico, and where they can raise three crops of corn in a year on one piece of ground, have already turned a good part of their corn land into oil-bearing seed crops. They do this because the returns are much better from such oil-bearing seeds than from corn. The result is that there is already a serious shortage of corn.

President Avila Camacho has stressed this situation to me, with its consequent economic and political repercussions if the great mass of the Mexican people are not able to get corn, which is their staple food, or if they have to pay too high a price for it. It means economic and political disorder in this country if this corn shortage cannot be met. Something will have to be done about it, and although our people at home have been giving attention to this matter as a result of my reports, we have, as you know, a serious situation with respect to corn at home, which is due not so much to actual shortage as to withholding from the market because of dissatisfaction with the ceiling price. The Mexican Government is prepared to pay whatever price may be necessary to get the corn it urgently needs from us and to distribute it to the Mexican people at the present prevailing price in Mexico, making up the difference through a subsidy which the Mexican Government will have to provide.

In view of the fact that I have been unable to give any encouraging information to the President of Mexico about corn from home, and as the situation here is growing more serious every day, the President is sending tomorrow to the United States, Dr. Francisco del Rio Canedo. He will get in touch with the Department upon his arrival and, through the Department of State, with appropriate officials of our Government. Mr. Bonsal, in the State Department, has already been in touch with Justice Byrnes⁵⁰ on this matter, who sees great difficulties, and these I understand.

The reason that I am writing you about this matter is because the situation is really serious. If Mexico cannot get some corn, it will

⁵⁰ James F. Byrnes, Director, Office of War Mobilization.

have serious repercussions in the economic and political life of this country where, fortunately, there is more order than has prevailed here for many years in the past. The whole program of the Mexican Government will be endangered and its stability will be endangered if corn cannot be got to meet the needs of the great mass of the Mexican people.

The total amount involved to meet the deficit here is not large. Mexico's program of production of strategic materials in which we are so much interested for war purposes, is going to be seriously endangered if this primary food problem which is confined to corn, cannot be met.

I should appreciate very much your bringing this matter to the attention of Justice Byrnes and I am sure that, through his collaboration and that of the high officers of our Government who can be helpful in this matter, a solution can be found. The problem is both an emergency and a long-range one. There is immediate necessity for corn from our country for Mexico, as it cannot be got from anywhere else in time to meet the situation. It may be that in addition to this immediate situation, Justice Byrnes and others will have to give consideration to a longer-range problem for at least a year, which affects both Mexico and ourselves.

You may be sure that I would not bring this matter to your attention if it were not a matter of primary importance and I have the deep conviction that it is just as important in some ways for us as it is for the Mexicans that the economic and political order now so happily prevailing in Mexico should be maintained. You know what can happen when people get hungry, and you know that such things can happen more easily in Mexico than in some other places.

I have written a very long letter to Mr. Bonsal,⁵¹ in the Department of State, in which I am setting forth some of the major details involved, and I am sending a copy of that letter to Secretary Hull; I am also asking Mr. Bonsal to make a copy available to Justice Byrnes immediately.

Regretting the necessity of intruding this matter on your attention, and again assuring you that I would not do so if it were not extremely important so far as our whole relationships with Mexico and the maintenance of the situation here are concerned, believe me, with every good wish,

Always cordially and faithfully yours, G. S. MESSERSMITH

⁵¹ Not printed.

812.5018/10-243

President Roosevelt to the Ambassador in Mexico (Messersmith)

WASHINGTON, September 29, 1943.

DEAR MR. MESSERSMITH: I have talked with Justice Byrnes about your letter of September 23, with reference to the serious situation which has developed in Mexico with respect to corn. He tells me that this is a matter which is more within the field of War Food Administrator Jones than his own, but he will ask Mr. Jones to cooperate with Mr. Bonsal to see what can be done to help Dr. Canedo, President Camacho's representative, in his efforts to straighten out the corn crisis in Mexico.

Although the matter of price rests with Economic Stabilization Director Vinson and Food Administrator Jones, Justice Byrnes states that you should not minimize the actual shortage of corn in this country and that the situation is by no means caused simply because of dissatisfaction with the price ceilings. It is true that corn has not flown as freely to market as it might because of the existing hog-corn price ratio, but it is also true that there is a very small supply to meet existing demands.

Sincerely yours,

FRANKLIN D. ROOSEVELT

812.5018/49

The Assistant Secretary of State (Berle) to the Ambassador in Mexico (Messersmith)

WASHINGTON, October 13, 1943.

DEAR GEORGE: I have to refer to your letter of September 23 to the Secretary,⁵² and to other correspondence of the same date, regarding the corn situation.

As you know, the President issued a directive, of which I enclose a copy,⁵³ covering a preliminary shipment of some 60,000 bushels. This corn was taken from the WPB⁵⁴ industrial stockpile and is moving out of Kansas City as rapidly as circumstances permit. We realize, of course, that this is but a small part of the entire Mexican immediate need. This matter is being very actively explored, and Commodity Credit is endeavoring to locate corn elsewhere which might be used to replace any that might be taken from our own stocks or which might be made available to the Mexicans on an immediate basis.

As you know, the degree of difficulty involved in a matter of obtaining this corn for Mexico is exceedingly great, as you will undoubtedly

⁵² Not printed; for substance, see the Ambassador's letter of the same date to President Roosevelt, p. 433.

⁵³ Not attached to file copy of instruction.

⁵⁴ War Production Board.

realize from the fact that it was a question which the Department, together with other interested agencies, was entirely unable to resolve and which it found necessary to submit to the President. I need not assure you that every effort is being made by this Department to find some solution to this question the importance of which, as regards our relations with Mexico, is not in any way being underestimated here.

With kind regards,
Sincerely yours,

A. A. BERLE, JR.

812.5018/57a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, October 15, 1943—10 p. m.

1734. At a meeting this afternoon the Commodity Credit advised Ambassador del Rio⁵⁵ that there would be made available to Mexico, as a stopgap, 5,000 tons of corn at Kansas City and St. Louis to be shipped in accordance with del Rio's instructions i.e., 2,500 for shipment by sea from New Orleans originating at St. Louis at \$1.0875 and 2,500 tons for rail shipment originating at Kansas City at \$1.0475. In exchange, del Rio promised that his Government would do everything possible to deliver at border points from El Paso west vegetable meal on a dollar-for-dollar basis. Commodity Credit then stated that the vegetable meal prices should be per short ton, cottonseed meal, \$42 bulk and \$45 bag; flax seed meal \$38 bulk and \$41 bag; sesame meal \$44 bulk and \$47 bag. Commodity Credit pointed out that the two first were based on ceiling prices while the sesame is based on a "fair price", there being no ceiling. It was pointed out to del Rio that the degree of success of the Mexican efforts to obtain this vegetable meal for grain feed for cattle in the west would be an important factor in Commodity Credit's ability to get other corn from the back country as the 5,000 tons now being made available are all that Commodity Credit can now afford. In other words, subject to transportation limitations in the movement of corn, Commodity Credit will continue to make corn available in the dollar equivalent amount of vegetable meal delivered at points west of El Paso.

It was also emphasized that the transportation factor was of the utmost importance and that it would be necessary to move the box cars back out of Mexico on an extremely urgent basis.

Del Rio indicated that he would have C. B. Fox and Company, New Orleans, telephone Commodity Credit immediately regarding the final arrangements for the corn.

⁵⁵ Francisco del Rio Canedo.

It will be noted that Commodity Credit is accepting, in exchange for this corn, the promise of del Rio his Government would do everything possible to make the vegetable meal available.

Del Rio will presumably report back to his President immediately and this information is furnished you for your background only.

The Department desires also to point out that the action of Commodity Credit in obtaining this promise from del Rio is for the purpose of defending its making this corn available to Mexico. Corn is in urgent demand throughout the west particularly for dairy and poultry use and there would otherwise be marked criticism levied against this action.

The Department will appreciate your views as to the probable success of this arrangement as a solution of Mexico's current corn problem.

HULL

812.5018/67a : Telegram

*The Acting Secretary of State to the Ambassador in Mexico
(Messersmith)*

WASHINGTON, October 26, 1943—10 p. m.

1823. Ambassador del Rio has informed the Department that he is completing arrangements for the purchase of 4,000 tons of corn on open market at the ceiling price deliverable after November 1 at Saint Louis, Kansas City, or other markets. It appears, on investigation, that this transaction is in accordance with applicable laws and regulations. A severe shortage continues to exist as far as corn for feed purposes is concerned. It is anticipated that, owing to the growing shortage of feed, it will be necessary to ration restrictively milk and eggs.

Whether Mexico gets corn from Commodity Credit or through commercial channels the amount received will depend primarily upon the willingness of the appropriate agencies of this Government to allow corn to move to Mexico. In turn, that willingness will depend upon the willingness and ability of the Mexican Government to make substitute feeds available for distribution in this country in accordance with the directives of the pertinent agencies of this Government. Dr. del Rio has not yet furnished any concrete information on this point although he yesterday informed the Department that he would have such information on Wednesday or Thursday of this week. In the absence of such concrete information and in view of the statements as to the availability of these substitute feed products contained in your despatch no. 13722 of October 20,⁵⁶ you will appreciate that no further progress can be made towards the release of Government owned or controlled corn until we have the required information from the Mexican

⁵⁶ Not printed.

Government. Furthermore, the appropriate agencies of this Government will obviously not be in a position to permit further exports through commercial channels on an unlimited scale in the absence of definite Mexican cooperation.

The reason for specifying delivery of Mexican oil seed cakes or meal at El Paso or points west is that there is a deficiency of *protein* feed stuffs in the mountain and Pacific areas.

With respect to your inquiry as to whether the Mexicans have obtained corn elsewhere, the Department knows of no arrangements whereby the Mexicans have recently obtained corn other than the above operation and other than the two Government-to-Government operations of which you have been informed.

STETTINIUS

812.61/171

The Ambassador in Mexico (Messersmith) to the Secretary of State

[Extracts]

No. 13847

MÉXICO, D. F., October 27, 1943.

[Received November 2, 1943.]

SIR: I have the honor to refer to previous correspondence with the Department concerning the general authority of the Coordinator of Inter-American Affairs to carry through emergency food programs in various of the American republics.

It will be recalled that the Coordinator of Inter-American Affairs ⁵⁷ has on several occasions during the last year expressed a desire that the Embassy initiate conversations with the Mexican Government leading towards the inauguration of such a program. The Department is aware that the attitude of this Embassy has consistently been that the existing circumstances in Mexico did not warrant our taking up this matter with the Mexican Government and that there were various reasons of policy why it should not be taken up with the Mexican Government at the time. . . .

The Department will note that my attitude towards the eventual presentation of this matter to the Mexican authorities has changed and that under certain conditions I am willing to undertake the negotiation of such an agreement with the Ministry for Foreign Affairs. The principal reason for this change of attitude of the Embassy is that the derangement in the food problems of Mexico brought about by the diversion of corn lands to oil seeds and other more profitable crops has resulted in a very serious corn shortage. The methods

⁵⁷ Nelson Rockefeller.

of producing corn in Mexico which is the basic food in the country, in spite of the efforts of the Department of Agriculture to bring about an improvement, have not been successful in bringing about any reasonable production of corn per acre. There are many factors which enter into this problem. It is increasingly necessary, in view of the fact that corn is the basic food of the Mexican people, that something be done to improve the production of corn per acre. The same applies to several other of the basic crops of the country. If, through a collaborative program such as the Coordinator has in mind, we can be of real assistance to Mexico in improving the per acre production of her basic crops, it will be a great service to the country. The degree to which we are able to do this is not yet clear to me but I have changed my point of view in the sense that I believe that the Mexican authorities will be somewhat more receptive towards an approach of this kind.

Respectfully yours,

G. S. MESSERSMITH

S12.5018/39

The Department of State to the Mexican Embassy

MEMORANDUM

Further reference is made to the memorandum of September 1, 1943, from the Mexican Embassy,⁵⁸ concerning the shipment to Mexico of about two million bushels of wheat purchased in this country and requesting that, since it will not be possible to ship the two million bushels to Mexico before January 31, 1944, the subsidy arrangement be extended to January 31 of next year.

A further communication on this matter has now been received from the Acting Secretary of Agriculture⁵⁹ stating that the period for delivery under the subsidy program has been extended from October 31 to December 31, 1943. The Acting Secretary of Agriculture expresses the view that the extension of time should be quite ample to take care of remaining stocks in the United States, particularly if the Mexican Government is taking steps, as has been indicated to the Department of Agriculture, to increase the current volume of wheat imports into Mexico.

WASHINGTON, October 29, 1943.

⁵⁸ Not printed.

⁵⁹ Paul H. Appleby; letter of October 25, 1943, not printed.

812.5018/76-1

*Memorandum of Conversation, by Mr. John W. Carrigan of the
Division of the American Republics*

[WASHINGTON,] October 30, 1943.

Participants: Ambassador del Rio;
Mr. Farrington, Commodity Credit;
Mr. Davis, Commodity Credit;
Mr. W. B. Fox of New Orleans;
Mr. J. F. McGurk, State—RA, Assistant Chief
Mr. J. W. Carrigan, State—RA.

The above met in Mr. Bonsal's office the afternoon of Friday, October 29, 1943.

Ambassador del Rio opened the conversation by stating that, while he had received replies from his Government, the information received gave no indication as to what immediate shipment of protein meal might be made, but that he understood 100,000 tons would eventually become available. He did not have any information as to whether the prices fixed by Commodity Credit nor as to how much meal, at these prices, would be immediately available. He referred to a telegram from Distribuidora indicating Mexico would be glad to collaborate.

NOTE 1: Del Rio had confirmation from his Government of agreement in principle to collaborate with our Government on protein meal. He had nothing on prices and amounts immediately available. I gathered he intended to make the latter data available as soon as possible.

Dr. del Rio then inquired as to whether corn in the open market were not moving faster. He said that American Trading and Continental Grain had offered to deliver him all the corn he needed after November 15. He emphasized, however, that while his country was in vital need of corn, his Government would not deal with these companies except on a legal basis and with the full sanction and approval of our Government. He asked if his Government might deal directly with these companies on the open market.

It was inquired how much corn was involved. The Ambassador said 150,000 tons to be deliverable after the 15th of November. The Ambassador inquired if Commodity Credit had any comments to offer on the firm assertion of the companies they could deliver. The Commodity Credit representatives said that as yet they were unable to forecast the answer, but that the two companies under reference were very large and reliable firms indeed.

The Ambassador then said that with respect to his inquiry as to the propriety of these open market operations, he wished to point out that this was a matter entirely distinct from the protein meals,

since he was going to see that, entirely apart from the corn—where and how it were obtained, and in what amounts—, the protein meals were made available to this country; that Mexico would be glad to sell them; and that he would be glad to see they were distributed in accordance with Commodity Credit's instructions or desires.

He reverted to his inquiry as to the propriety of these private, open market operations.

Mr. Farrington said that the following formula would be approvable:

As of today it would be all right for the Government of Mexico to buy corn privately, subject to (a) maintenance of ceiling prices and (b) obtention of an export license.

Ambassador del Rio said his Government of course planned to abide by the ceiling prices, as it did not contemplate following other than the strict letter of the law. In so far as the export licenses were concerned, it was pointed out that Mr. Fox had had no difficulty in obtaining these, and Mr. Carrigan suggested "that, in principle and at this time, there was no reason to expect any difficulty if the amounts involved were reasonable and did not upset our market". The Ambassador pointed out that we would hardly refuse such licenses to Mexico, and that the 150,000 tons would be purchased over a 12-month period. Mr. Carrigan remarked that these licenses were not issued by the Department of State, but that he agreed in principle with the Ambassador. It was then further remarked that the situation might change and that it might even be that corn came under rationing here. The Ambassador replied that, if such a changed situation should arise, he was sure we would wish to share with Mexico on an equitable basis what we might have.

Reference was then made to the 48,000 bushels remaining, in Kansas City, of the 5,000 tons released by Commodity Credit. The Ambassador said that this had not yet started to move. Mr. Fox said that there had apparently been some misunderstanding but that the warehouse receipts should have arrived that same day, and said he felt satisfied the corn would start moving November 1, Monday. Mr. Carrigan asked if the Ambassador and Mr. Fox were certain we need take no action: he was informed no action then seemed necessary.

JOHN W. CARRIGAN

812.5018/69 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, November 8, 1943—4 p. m.

[Received November 9—12:28 a. m.]

1086. Reference corn situation in Mexico and some arrangement apparently proposed by Commodity Credit for matching Mexico

exports of oilseed meals against exports of corn from the U. S. Reference is also made to Mexican Government embargo on exports of oilseed meals effective November 1. Reference is also made to telephone conversation Carrigan to Mallory concerning lifting embargo on 61 cars oilseed meals en route to border.

This Embassy would appreciate further information as to nature of the barter or matching arrangement as many points are confusing.

I spoke to the Minister of Agriculture ⁶⁰ at some length on Friday November 5, I spoke to him briefly on November 7 and the Agricultural Attaché had a further conference with him on November 8. I pointed out the desirability of lifting the embargo and he promised to take up this matter with the President. This morning he informed the Agricultural Attaché that the subject had been taken up and that the embargo had been placed in effect by Economic [*sic*] in the belief that it was so desired by the American Government on information furnished by the Mexican Embassy in Washington and also in the belief that it was a type of barter arrangement such that the oilseed meals would be purchased by an agency of the American Government. The Minister asked if the American Government would accept as evidence of its cooperation quantities of oilseed meals shipped to the U. S. through the usual channels of trade. The Agricultural Attaché informed the Minister that he believed such an arrangement would be satisfactory but that he would make appropriate inquiries. The Minister stated he wished a reply in writing. This Embassy is fully convinced that only by opening up the usual channels of trade can oilseed meals be moved quickly and advantageously, otherwise the whole matter will become hopelessly involved within the administration machinery of the Mexican Government. We estimate that between 40,000 and 50,000 tons have already been sold to American buyers. This Embassy would appreciate immediate telegraphic reply concerning this question.

In a speech yesterday the Minister of Agriculture announced the size of the new corn crop at 1,775,000 metric tons involving a probable deficit of 475,000 tons. He indicated that 18,000 tons are authorized for purchase abroad and hoped that new Government measures would stimulate production enough next spring to cover the balance of deficit.

Today and confidentially the Minister of Agriculture informed the Agricultural Attaché that 20,000 to 25,000 tons comprise immediate needs with possibility of additional 75,000 to 100,000 tons being required next spring. The Minister stated that the problem was equally one of assurance in being able to get physical delivery and transportation of corn as much as corn itself. The Department is requested to inform this Embassy whether such assurance can be furnished the

⁶⁰ Marte Gómez.

Mexican Government even though the corn may not be required. It is believed such assurance will go far towards reducing the probable actual amount of corn required by Mexico.

MESSERSMITH

812.5018/69 : Telegram

*The Acting Secretary of State to the Ambassador in Mexico
(Messersmith)*

WASHINGTON. November 9, 1943—8 p. m.

1932. The best information available to the Department regarding the corn for Mexico is as follows:

From United States Government sources about 6,500 tons; from other sources in the United States, about 18,000 tons (of which 12,000 tons is said to have been acquired by Ambassador Del Rio although full details are not available.) In addition, 1900 tons is available from Cuba of which 500 have already been shipped with an additional 1500 tons expected to be available shortly. The Department and other agencies at Washington will continue to cooperate to expedite shipments.

With regard to Mexican oilseed meal exports, the interested agencies of this Government would like to see these products move rapidly through normal commercial channels at the price levels which were indicated to you. You are authorized to furnish this information in writing to the Minister of Agriculture as suggested in your telegram 1086, November 8, 4 p. m., and to add that quantities of oilseed meals shipped to the United States under these conditions would be welcomed as evidence of the Mexican Government's cooperation provided that Mexico will similarly accept all corn shipped from this country either through Government or commercial channels.

Although the Department believes that the setting off of amounts of corn furnished from the United States as against the amounts of oilseed meal furnished by Mexico serves a useful purpose, it is the Department's position that an exact equivalence can not at all times be obtained, and the Department believes it to the advantage of both Governments to extend to each other a maximum of cooperation.

STETTINIUS

812.5018/74

The Mexican Embassy to the Department of State

MEMORANDUM

[Translation]

In confirmation of the conversations which its representatives have been holding with those of the Department of State, the Embassy of

Mexico desires to refer to arrangements initiated by its Government for the purchase of a tonnage of corn which would permit the solution of the scarcity which has resulted from the very bad climatic conditions of the year which is ending. In this connection, the Department will recall that the United States authorities directed these arrangements toward the idea of an exchange of corn for oil seed meals that United States farmers in the Middle West and in the West might use in place of the corn sold to Mexico and which, in the United States, is fundamentally used for livestock feed purposes.

The Government of Mexico has been particularly well disposed toward establishing an agricultural policy resulting in the production of the two countries—Mexico and the United States—being complementary. With this in view, Mexico has been exporting considerable tonnages of oil seed meals and the exportations this year will increase even more because of a production considerably over that of last year.

The proposal that meals should be delivered directly in exchange for corn appears to present this matter in the disagreeable light of a bartering of merchandise. Mexico, in fact, is sending to the United States large quantities of agricultural products and, through a very intense campaign for increased sowing, is preparing to meet her deficit of corn without having to call upon the help of United States production.

Regarding the problem of oil seed meals, Mexico has endeavored to overcome the shortage by permitting a liberal increase in prices. To wish to obtain from Mexico oil seed meals at the United States ceiling prices would complicate the situation of Mexico and that of the United States, for it would diminish interest in production in Mexico without the United States obtaining a result other than that of not being able to obtain those meals now being acquired from Mexico.

There are United States purchasers who are endeavoring to acquire Mexican meals at reasonable prices. Mexico cannot begin requiring sales at low prices without upsetting her own problem of oil seed sowing.

The above situation was fully gone into last Friday by the Secretary of Agriculture and the Ambassador of the United States, Mr. Messersmith. Ambassador Messersmith, who is adequately informed regarding the agricultural efforts of Mexico, not only shared the views of Engineer Gómez, but even showed himself disconcerted by the embargo decreed by the Ministry of National Economy and considered this embargo susceptible of hindering the efforts that he has been making to obtain corn for Mexico.

Ambassador Messersmith requested Engineer Gómez to use his influence to the end that the Ministry of National Economy should lift the embargo, and strongly recommended that commercial operations between Mexico and the United States continue to be carried out through the accustomed commercial channels.

In the opinion of the Embassy, this request involves the idea that the Government of the United States of America shall take into account any exportation of oil seed meals from Mexico to the United States through already established commercial channels as a contribution toward easing the United States problem of cattle feed. Furthermore, the Embassy is sure that, upon returning to a normal system insofar as these exports are concerned, the Government of the United States of America will continue its efforts to cooperate with the Government of Mexico in solving those problems brought about by the present scarcity of corn through direct deliveries of this cereal to the Government of Mexico.

Since confirmation by the Department of State of the ideas expressed in the previous paragraph would speed up those steps which are necessary for the lifting of the embargo under reference, the Embassy has to request that the Department be so kind as to furnish its reply to this Memorandum within the shortest period possible.

WASHINGTON, November 10, 1943.

812.5018/76

The Chief of the Division of the American Republics (Bonsal) to the Vice President of the Commodity Credit Corporation (Falk)

WASHINGTON, November 11, 1943.

DEAR LEON: I have to refer to your letter of November 8, 1943,⁶¹ regarding the question of lifting the present embargo on vegetable oil cakes and meals.

As your office has been advised by Mr. Carrigan, certain steps have been taken by our Embassy in Mexico City regarding this matter, and our Embassy was assured yesterday that a telegram would go out lifting the embargo along the border. The Embassy was not certain as of this afternoon as to whether these measures would affect future shipments or whether the embargo was merely being lifted on shipments which might be pending. In any event, as you know, the Mexicans appear very desirous to take early action along the same general lines that you mention in your letter.

I had lunch with Ambassador Castillo Nájera today and discussed your letter with him. Along broad lines, as you know, your letter

⁶¹ Not printed.

follows more or less the proposals made by the Mexicans in the note they delivered yesterday ⁶² and a copy of which has been sent to you.

I explained at some length to Ambassador Castillo Nájera the interpretation you gave Mr. Carrigan this morning as to the prices set for these oilcakes and meals, that is, that these prices were merely to be considered as measuring rods for the purpose of determining whether corn shipments to Mexico were lagging behind meal and cake shipments from Mexico, or whether the case were the reverse. I explained to him that these prices were not intended to govern in the case of the present pending transactions but that we would of course expect the help of the Mexican Government should, at some future date, the prices charged our people for these meals and cakes become excessive. I explained to him that this was really a very difficult situation, inasmuch as in many ways it might be said that our farmers could use this corn at the ceiling prices instead of vegetable meals and cakes. If the prices for these meals and cakes became excessive, our farmers would naturally prefer to use corn at our ceiling prices for cattle feed.

According to the best information available, Dr. del Rio was able to obtain some corn on the private markets deliverable after November 1. A pooling of this information appears to show that Cargill ⁶³ has definitely sold him between five and six thousand tons; and that Fox in New Orleans has definitely sold him roughly six thousand tons. He is also said to have obtained a further five or six thousand tons, probably from Continental,⁶⁴ but this has not been confirmed. Also, I understand Commodity Credit is making some 1,400 tons available from Cuba. This is, of course, a very satisfactory improvement on a situation which was really the source of very deep concern. I hope they will be able to make substantial further purchases on the open market, and I hope your information tallies with what we have heard, to the effect that there is quite a substantial additional amount they might obtain. It would be exceedingly helpful to us and to our Embassy in Mexico if we might have at an early date some general information as to their further prospects, as well as the specific information on their current shipments which I understand you are getting together: I shall certainly appreciate these data when they are available.

The situation with respect to this corn does seem to be shaping up favorably; however, I am exceedingly grateful for your offer of assistance should the results from private sources not prove as satisfactory as may be necessary to meet the Mexican needs.

⁶² *Supra.*

⁶³ Cargill, Inc., Minneapolis, dealers in grain.

⁶⁴ Continental Grain Company of Kansas.

I am really very hopeful that a solution satisfactory to all concerned may be found. The immediate problem is of course for us to obtain the vegetable oil meals with a minimum of difficulty and for the Mexicans to obtain adequate corn. I think that lifting the embargo, which, after all, is said to have been established so as to permit these surplus meals to come to us in an orderly fashion, will be most helpful and not difficult of accomplishment. With your assistance, should it prove necessary, I am sure the Mexicans will have their corn.

In many ways, however, I wonder if it might not be well, as soon as we see the meal coming in, and if the corn is moving south of the border adequately, to consider suggesting to our Mexican friends that we abandon the "dollar-for-dollar equivalent" project. From the tone of their note, I gather they might be glad to do so, and it might be a wise move on our part since the continuance of the project might at some time in the future lead to an unfortunate recurrence of this meal embargo proposition. You might desire to give some thought to this: I do not think it would be unduly hard to accomplish on the understanding the two Governments would do everything possible to help each other, should purchases of either product fall into difficulties.

With best wishes [etc.]

P[HILIP] W. B[ONSAL]

812.5018/74

The Department of State to the Mexican Embassy

MEMORANDUM

Reference is made to the Mexican Embassy's memorandum of November 10, 1943, regarding the general question of the scarcity of corn in Mexico and the scarcity of protein meals in the United States of America.

Commodity Credit Corporation has informed the Department of State, in this respect, that it will continue to work with the Department in permitting Mexico to secure corn to meet its minimum requirements on the basis of the understanding that the Government of Mexico will in turn facilitate the movement to the United States of oilseed meals in an equivalent value in order to provide livestock feed.

It is understood that, recently, shipments of these oilseed meals may have been purchased in Mexico by dealers from countries other than the United States of America.

The food situation in the United States continues to be very serious, and Commodity Credit, in view of this great need, hopes that dollar values (measured at United States ceiling prices) of protein feed

from Mexico shall at least match the dollar values (also at United States ceiling prices) of corn shipped to Mexico.

With respect to the question of the prices commanded by oilseed meals shipped to the United States for livestock feed, the appropriate authorities of the Government of the United States would only desire to take effective measures for the control of such prices after the arrival of oilseed meal shipments in the United States.

With particular reference to the Embassy's inquiry as to whether oilseed meal shipped through usual commercial channels shall be taken into account for the purposes indicated in the fourth paragraph hereof, and with reference to the suggested use of October 15, 1943, as the date from which shipments of either corn or meal shall be taken into such account, Commodity Credit finds it entirely acceptable to take into account shipments of either corn or meal made through either the usual commercial channels or through such other channels as may have been necessary starting October 15, 1943.

In the premises, in so far as shipments of oilseed meal to the United States may be concerned, it is trusted that the embargo on such shipments, placed thereon by the Government of Mexico, may not be re-applied, and that there may be taken any appropriate steps to facilitate the passage into normal United States commercial channels of any surplus of Mexican oilseed meal.

WASHINGTON, December 24, 1943.

DISCUSSIONS BETWEEN THE UNITED STATES AND MEXICO CONCERNING OPERATING PROBLEMS OF THE PETROLEUM INDUSTRY ⁶⁵

812.6363/7828½

The Ambassador in Mexico (Messersmith) to the Under Secretary of State (Welles)

MEXICO, January 7, 1943.

DEAR SUMNER: Mr. Duggan ⁶⁶ called me on the telephone on December 12th and indicated the need for an early clarification of the policy of the Mexican Government with respect to the participation by United States interests in the Mexican petroleum industry, and referred to the exploratory memorandum ⁶⁷ which I had delivered in August under instructions of the Department to the President ⁶⁸ and to

⁶⁵ Continued from *Foreign Relations*, 1942, vol. vi, pp. 525-536.

⁶⁶ Laurence Duggan, Adviser on Political Relations.

⁶⁷ Undated copy transmitted to the Department by the Ambassador in Mexico in his despatch No. 3498, August 24, 1942 (not printed). It was based on Department's instruction No. 1336, August 6, 1942, *Foreign Relations*, 1942, vol. vi, p. 528.

⁶⁸ Manuel Avila Camacho.

Padilla ⁶⁹ on this matter. I indicated to him that although I had on several occasions referred to my desire to discuss this matter in detail with the President and with Padilla, I had been told by Padilla that he was giving careful study to the memorandum and would discuss it with me in due course.

After the conversation with Duggan, I informed Señor Padilla that I wished to discuss this matter with him fully and I have had two talks with him during the first part of this week. He did not show any considerable disposition to discuss the questions involved, but rather wished to explore our own views. He indicated that so far as their studies had gone, they did not see the possibility of the participation of foreign, and of course American, capital, except in the foreign marketing of Mexican oil. I told him that this would, I believed, be an altogether inadequate basis for discussion, as it would not be of sufficient interest to my Government and of no interest to the foreign oil interests whose cooperation in any marketing scheme was essential. I called his attention to the fact that while in Mexico and in Russia the oil industry may be a Government monopoly, the major oil producing interests in the world are private companies which to a large extent control the world markets.

There are reasons why I wish to get this letter off by this air mail this morning, so that I cannot enter into a discussion of the conversations I had with Padilla at this time. This is just a word to tell you that I find, through my discussions with him and Mr. Suárez,⁷⁰ that the Mexican study of our memorandum has not made the progress which, in my opinion, it should have made, and that they have not yet adequately attacked the basic problems of policy which they must face. While I cannot go into details, I can only say here that I discussed fully with Padilla the various points raised in our memorandum and I finally secured from him a statement to the effect that he realized that the Mexican Government would have to consider these major questions of policy and he would go into them again immediately with his associates and with the President and would talk with me before he left on a holiday which he is taking and with the President, so that I could talk with the President before I left on a brief leave for Washington on January 15th. Padilla indicated that he realized that a certain participation on an equitable basis by foreign capital in the Mexican industry was necessary. In a conversation with Suárez, he indicated to me that he believed foreign participation in a certain measure and on an equitable basis was necessary. The only forward progress which I have made in the conversations is that I think they are now actually

⁶⁹ Ezequiel Padilla, Mexican Minister for Foreign Affairs.

⁷⁰ Eduardo Suárez, Mexican Minister of Finance.

studying the method under which foreign capital can on an acceptable basis to both sides participate in the industry. One thing is clear, and that is that the internal marketing is closed to foreign capital, so far as distribution and sale of oil products in Mexico is concerned. Another thing which is clear is that the oil industry will remain a monopoly of the government in Mexico, and that the principle of sub-soil rights, etc., will be maintained. As I see it, their approach will be to determine in what measure and in what form foreign capital can participate with *Petroleos Mexicanos*⁷¹ and with the Mexican Government in phases of the oil industry other than the internal marketing in Mexico.

The reason I am writing you this letter so hurriedly is because Pauley and a man named Mosher⁷² have been here and have been to see various people in the Government. Pauley came in to see me with Mosher yesterday. He knows all about the deGolyer report,⁷³ and far more than I know here. I told him that I had been given some partial information with regard to the deGolyer report and that I was authorized to make a communication to the Mexican Government with regard to certain materials for repairs to the refineries and to increasing the capacity of the Mexico City refinery; and that we were prepared to consider the possibilities of a high-octane plant in Mexico City, but this latter was a more difficult problem on account of the considerable amount of new material involved. I said that I was communicating with the Mexican Government in this sense and indicating that conversations as to the details would have to be between the Department of State and members of the Mexican Government designated for this purpose. Pauley asked where he came in under this, and I told him that I believed our conversations with regard to the deGolyer report and with regard to the oil question, so far as rehabilitation is concerned, had been on the basis of what had to be done and without any reference to companies. I emphasized that the conversations with regard to repairs and improvement in facilities would be between the State Department and the Mexican Government. Pauley said he had been giving his time and attention to this matter for three years and that he was naturally deeply interested. I told him that so far as I was concerned I was thinking of the matter in terms of what had to be done and not in terms of his interest or any other individual interest.

⁷¹ Mexican Government instrumentality referred to as "Pemex".

⁷² Edwin W. Pauley, with his associate Mosher, proposed to construct and operate several oil plants in Mexico, including a high octane plant. The Department disapproved.

⁷³ Not printed; the report (made by a mission headed by Everette L. DeGolyer, Assistant Deputy Petroleum Administrator) recommended a rehabilitation of the refineries of Pemex and the construction of a high octane plant in Mexico City (812.6363/7801).

He said he quite understood and he was going home on Saturday. He will undoubtedly come down on the Department and other agencies almost at once.

I saw Mr. Suárez and we had a very frank talk about Pauley's being here and Suárez told me that he would tell Pauley that so far as the Mexican Government is concerned these conversations had to be with the Department of State on this matter and they were not prepared to talk to any individuals.

I am so tremendously pressed here that it may be several days before I can find an opportunity to dictate a full report on my conversations on oil with Padilla and Suárez, but I will try to get it off as soon as possible. This is just a preliminary word to give you a somewhat inadequate idea of what has developed, so that you may be aware of Pauley's presence here, etc.

With all good wishes,

Cordially and faithfully yours,

G. S. MESSERSMITH

812.6363/7818

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 6493

MEXICO, January 8, 1943.

[Received January 13.]

SIR: I have the honor to refer to the Department's strictly confidential telegram No. 1650, of December 14, 11 a. m., 1942,⁷⁴ stating that it has endorsed and approved the recommendations of the mission of oil experts on repair and expansion equipment and materials needed by the oil refineries in Mexico, and instructing me to convey certain information to the Mexican Government.

The Department's telegram under reference states that there is being sent to me a summarized portion of the oil mission's report. The only such summary which I have received is a copy of a memorandum dated December 3⁷⁵ prepared by Mr. Thornburg for Secretary Hull, which reached me without any covering instruction, but I assume from a telephone conversation with Mr. Duggan, of the Department, that it is intended that the information contained in this memorandum may be transmitted to the Mexican Government.

In accord with the telegram under reference, I therefore left with the Minister of Foreign Relations, Dr. Padilla, today, a memorandum dated January 8, of which a copy is transmitted herewith. The Minister indicated that the Mexican Government would immediately give

⁷⁴ *Foreign Relations*, 1942, vol. VI, p. 536.

⁷⁵ *Ibid.*, p. 535.

consideration to the designation of appropriate representatives to proceed to Washington to discuss with the Department of State the questions raised in the memorandum.

Respectfully yours,

G. S. MESSERSMITH

[Enclosure]

The American Embassy to the Mexican Ministry for Foreign Affairs

No. 928

MEMORANDUM

Some months ago, in accord with an arrangement between the Government of the United Mexican States and that of the United States of America, a joint mission of experts of the two Governments made a survey of the petroleum situation in Mexico with particular reference to the needs of the petroleum industry for materials for repairs and improvements. This mission has now made its report to the Department of State and the Department has endorsed and approved the recommendations of the mission on repair and expansion equipment and materials which, in the opinion of the mission, are needed by the oil refineries in Mexico. It has approved as well, in principle, recommendations with respect to some new plant construction and facilities to increase the facilities of existing plants. The necessary priority allocations will be facilitated by the Government of the United States towards this end.

The Department of State assumes that the Government of Mexico will discuss with the Government of the United States the question of obtaining competent American manufacturers, well-grounded in this particular category of work, to design and erect the equipment, and if necessary to train the operators thereof, in this manner assuring efficiency in the use of the machinery and equipment for which priorities will be sought.

While the American Embassy in Mexico City has not received full information concerning the contents of the report and recommendations of the petroleum mission, it is in a position to convey the following information with respect to the report, to the Government of the United Mexican States:

1. Producing operations currently require only maintenance and operating materials, but an expanded program of exploration drilling must be undertaken very soon to strengthen the fast-deteriorating reserve position. This is a very considerable undertaking and one which will require careful study.

2. The refineries further urgently require both maintenance and expansion materials in order to continue current operations and to fulfill the requirements which may arise out of the war emergency. The most important steps in the refinery expansion program which have been recommended by the mission are as follows:

- a) Additions to the Mexico City refinery to raise the crude distillation capacity from 18,000 barrels a day to 28,000 barrels a day.
- b) Installation of heavy oil cracking units of a certain capacity per day at the Mexico City refinery.

3. The mission notes that the Mexico City refinery operates on crude transmitted by pipeline and states that the enlarged plant in Mexico City will satisfy the full requirements of the central plateau, which is at present partially served by products laboriously and inefficiently carried by rail tank cars.

4. The expanded operations of the Mexico City refinery will yield certain products and gases which furnish the raw feed for the manufacture of high octane aviation gasoline. It is therefore considered desirable to install additional equipment for processing these raw materials into aviation gasoline in the amount of approximately one thousand barrels a day.

5. The mission notes that the primary distillation and cracking equipment could and should be obtained from shut-down refineries in the United States but it emphasizes that the high octane manufacturing facilities would have to be ordered from manufacturers with a delivery schedule integrated into the over-all program of the world-wide high octane gasoline plant construction.

6. The mission notes that the Mexican Government should arrange for the construction of these new units by established firms of United States engineers and contractors, which should also be charged with the operation of the expanded units until Mexican personnel can be trained to take them over.

The Department of State has instructed the Embassy of the United States in Mexico City, in transmitting the above-summarized portions of the oil mission's report, to suggest that the appropriate Mexican authorities will wish to review these and in due course send appropriate representatives to the United States for discussions with the Department of State of their proposed arrangements for the prosecution of the work and as regards manufacturers and contractors.

While the discussions of the Mexican representatives will be with the Department of State, it is noted that when it will be helpful to have the aid of other United States Government agencies, the Department of State will arrange therefor.

The Government of the United States expresses the desire that the negotiations and conversations regarding the erection and management of the proposed 100-octane gasoline plant under consideration be carried on between Mexican and United States Government representatives. The interested departments of the United States Government in Washington, with this in mind, are already in consultation and will in the very near future be prepared to consult with the appropriate Mexican officials.

MEXICO, January 8, 1943.

812.6363/7842

*Memorandum by President Roosevelt to the Under Secretary of State (Welles)*⁷⁶

WASHINGTON, February 19, 1943.

I don't think this high octane gas from Mexico is at all in a difficult situation. Nor do I think that the construction of 100-octane gasoline plant requires decisions in regard to any other oil matters. Surely by now the Mexican Government has the ownership and control of some oil well or oil wells. What is more simple than for the Mexican Government to buy at cost or to rent the necessary equipment for 100-octane production, to hire somebody to set it up, and to hire some American company's management to turn out the gasoline?

Frankly, I think that on that basis there would not be a single voice raised in Mexico against that kind of deal. The octane gasoline desired is solely for war purposes. The United Nations need it. They ought to have it.

I cannot see the relationship between this immediate need and the "clarification of general petroleum policy". I don't agree either with you or Mr. Ickes⁷⁷ in this regard.

If you don't want any 3rd party in this production, get the Interior engineer to do it.

F[RANKLIN] D. R[OOSEVELT]

812.6363/7858

*The Mexican Minister for Foreign Affairs (Padilla) to the American Chargé in Mexico (Bursley)*⁷⁸

[Translation]

No. 51485

MEXICO, February 20, 1943.

MR. CHARGÉ D'AFFAIRES: I have the honor to acknowledge the receipt of your note number 1027 of February 15, 1943,⁷⁹ regarding the acquisition of gasoline in Mexican towns on our northern border by the

⁷⁶ On November 27, 1942, there was transmitted to President Roosevelt a statement (812.6363/7802) of the opposition of the Department to the building of a high octane gasoline plant by reason of the scarcity of equipment, and of its disapproval of the plan of E. W. Pauley to build such a plant because it suggested a type of exploitation which might invite a repetition of earlier difficulties. President Roosevelt on December 7, 1942, directed the Secretary of State to collaborate with the Petroleum Coordinator and the Secretary of Commerce to negotiate an arrangement with Mexico for building the 100-octane aviation gasoline plant (812.6363/7802).

⁷⁷ Harold L. Ickes, Secretary of the Interior and Petroleum Administrator.

⁷⁸ Transmitted to the Department by the Chargé in Mexico in his despatch No. 7817, February 26, 1943; received March 5.

⁷⁹ Not found in Department files.

owners of automobiles with licenses issued in the United States of America.

The Ministry has learned that among the various problems raised in this connection, the Government of the United States regards as particularly important (1) the evasions which, by such sales, are committed against the American gasoline rationing regulations, whose primary object is to conserve rubber, and (2) the export of gasoline from the United States to certain Mexican frontier towns.

In reply, I wish to inform you that in this matter, as in all others which have arisen in the present emergency, the Government of Mexico is moved by the deepest desire to cooperate with the United States. However, I believe that the concrete solution proposed by you—that, in said Mexican towns, owners of automobiles with American license-plates be required to turn over their American ration coupons—aside from the fact that it is legally impossible, in practice would offer no means of effective control.

In this respect, the Ministry believes that the rationing system, through coupons, is efficacious when there are no exceptions to its enforcement, for only in that way is it feasible to exercise due vigilance over the stores of the rationed article, and, in consequence, to punish every infringement of the respective regulations. When, as in the case in point, it is a question of limiting the consumption of gasoline to only one section of the public—American motorists in Mexican frontier towns—many ways would be found of evading the regulations; wherefore I think an effort should be made to find other means of action.

As regards the problem of the infringement of the said American rationing regulations, I am of the opinion that it could be resolved by limiting the importation of gasoline by American automobiles returning to the United States to an amount equal to or less than that carried at the time of entry onto Mexican territory.

In assuring you that in a program of this kind the American authorities may depend upon the full collaboration of those of my country, I avail myself of the opportunity to renew the assurances of my high consideration.

E. PADILLA

812.6363/7852

The Under Secretary of State (Welles) to President Roosevelt

[WASHINGTON,] March 1, 1943.

DEAR MR. PRESIDENT: In accordance with your instructions,⁸¹ arrangements are being made for the initiation in the very near future

⁸¹ See memorandum from President Roosevelt to the Under Secretary of State February 19, and footnote 76, p. 455.

of the conversations between representatives of this Government and of the Mexican Government leading to the establishment in Mexico of a 100 octane gasoline plant. It is anticipated that the representatives of the Mexican Government will arrive in Washington within the next few days.

The Department, in agreement with the Petroleum Administrator for War, envisages a contract between the Mexican Government's petroleum organization⁸² and an American concern of recognized standing, experienced in the design and operation of similar refining plants. Financing can presumably be arranged through the Export-Import Bank. The entire project, from the technical point of view, will have the benefit of review by the Petroleum Administrator and also by the War and Navy Departments to ensure a maximum correlation with military requirements. The contract will presumably include a clause giving this Government control over the marketing of the exportable surplus of products to be produced by the new plant during the life of the financing.

As soon as full agreement has been reached with the Mexican Government, it will undoubtedly be necessary for you to send a directive to the War Production Board in order to ensure the prompt scheduling of the necessary materials for the construction of the proposed plant. As you are aware, these materials are in extremely short supply and, if the commitment which we plan to make to the Mexicans is to be promptly and efficiently implemented, there is no doubt that an expression of your interest in the matter will be imperatively required.

Faithfully yours,

SUMNER WELLES

812.6363/7880a

The Secretary of State to the Ambassador in Mexico (Messersmith)

[Extracts]

No. 2776

WASHINGTON, March 12, 1943.

SIR: In the Department's instruction no. 1336 of August 6, 1942,⁸³ you were requested to have discussions with appropriate Mexican officials aimed chiefly at determining "the policies and intentions of the Mexican Government concerning such matters as the conditions under which and the manner in which foreign interests will be requested or permitted to participate (in the Mexican oil industry)."

The basic explanation given for this inquiry was that "when this Government is called upon to consider questions involving financial or other substantial assistance, or involving hemispheric security both

⁸² *Petroleos Mexicanos*.

⁸³ *Foreign Relations*, 1942, vol. VI, p. 528.

military and economic, or involving nationally important activities of its own citizens abroad, it must be in position to judge the long-range consequences of its own actions."

The immediate aim of these discussions was "to prepare the way for prompt and effective cooperation between appropriate agencies and individuals of both Governments who are directly concerned in the petroleum aspects of the general accord which exists between these two nations."

Your several telegrams and despatches relating to your discussions with the President and other Government officials, as well as your recent oral reports in Washington, all indicate the probable necessity and even the possible desire on the part of the Mexican Government for some informal suggestions from this Government which might assist the Mexican officials in crystallizing their own ideas in a form which would suit our mutual purposes.

If, in your discretion, some such course is, or becomes, desirable, it is the opinion of the Department that the type of plan generally described herein should be suggested.⁸⁴

From the foregoing it will be seen that in essence the proposed plan would accomplish the following:

1. Leave all subsoil rights and titles in the Mexican Government.
2. Leave the responsible direction, conduct and control of the Mexican oil industry in the hands of *Petroleos Mexicanos*, subject only to obligations imposed by the Mexican Government and to obligations voluntarily undertaken in its agreements with the contractor.
3. Make available to Mexico the best possible assistance; technical, commercial and financial in whatever degree and under whatever terms are agreed upon to suit each individual—or type of—circumstance.
4. Avoid the unfavorable popular reaction that direct negotiation or dealing with an individual American oil company, particularly one of the expropriated companies, might be expected to excite.
5. Protect the American contracting company from direct or discriminatory legislative action of an unduly burdensome or hazardous nature, by fixing its own obligations and rights in a contract with *Petroleos Mexicanos Corporation*, which contract would be subject to adjudication in the Mexican courts without involving questions of national sovereignty.
6. Provide the framework of an agreement as to principles within which the benefits accruing to both contracting parties could be adjusted, case by case, to give each an appropriate share in the total profits.

⁸⁴ In accordance with this instruction, the Ambassador in Mexico submitted a memorandum dated March 31, 1943, to the Mexican Minister for Foreign Affairs, copy of which was transmitted to the Department in despatch No. 8862, April 2, 1943 (not printed).

7. Furnish a framework of principles to which each of the Governments concerned could subscribe, thus in effect guaranteeing both contracting parties against failure of either one to perform.

8. Provide, in the contracting company, an agency through which any qualified American interests could participate through a stock interest and a voice in the management in so far as American investment is concerned.

9. Afford the opportunity of developing mutual confidence, and a *modus operandi*, which after a suitable period might lead to the creation of other generally similar contracting companies. (The first such company might be owned by a group of American oil companies, each one with a limited participation and managing voice. Subsequent contracting companies, when the time comes, might represent either groups of companies or a single parent company for each contracting company.)

Very truly yours,

For the Secretary of State:
DEAN ACHESON

S12.6363/7992

Memorandum by Mr. Max Thornburg, Consultant on Petroleum Matters, to the Under Secretary of State (Welles)

[WASHINGTON,] April 13, 1943.

MR. WELLES: Acting under the President's instructions, as communicated by you, the Department arranged for representatives of Petroleos Mexicanos to visit Washington to reach an agreement concerning the type of arrangement under which the proposed 100 octane plant and essential auxiliaries would be built in Mexico.

This Department outlined a plan which, briefly, provided for,

(a) the employment by Petroleos Mexicanos, on a usual fee basis, of some reputable and experienced American consulting firm of experts,

(b) the design and erection of the plants by some reputable American firm specializing in this field,

(c) supervision of all technical aspects of the work by the Petroleum Administration for War,

(d) financing of the dollar investment by this Government, with repayment by sale of products back to this Government,

(e) a staff of skilled American operators to operate the plants, to be supplied and supervised by the consulting firm, and

(f) approval by appropriate agencies of this Government of all contracts and of design, construction and operation as required to safeguard both investment and output.

This plan was reviewed with Secretary Ickes personally and approved by him, with the single qualification that the President may have had in mind that this Government itself should build and operate the plant.

[Here follows an explanation of the lack of progress in the negotiation.]

My last word from Mr. Buenrostro,⁸⁵ last night, was that he will return to Mexico, having exhausted his resources in futile efforts to have the Mexican case given reasonable consideration in the Petroleum Administrator's office.

Neither Mr. Bonsal nor I know what we can do. To both of us it appears that the results of a long period of promising work on the Department's part, including many months of effort by Ambassador Messersmith and by Morris Llewellyn Cooke,⁸⁶ all aimed at repairing the situation brought about by expropriation and the conditions which led to expropriation, are precariously close to the brink.

MAX THORNBURG

812.6363/7980½

Memorandum of Conversation, by the Chief of the Division of the American Republics (Bonsal)

[WASHINGTON,] May 1, 1943.

The purpose of my call on the Secretary of the Interior was to secure his approval of the press release which it is desired to issue in connection with the arrangements which have so far been agreed to for the construction of the 100 octane gasoline plant in Mexico. (Text attached ⁸⁷). The desirability of such clearance had been indicated to me by Mr. Welles.

I began the interview by pointing out to Mr. Ickes that Señor Buenrostro of Petroleos Mexicanos had now been in the United States over six weeks, and that he was most anxious, for a variety of obvious reasons, to have some statement issued regarding the results achieved in his discussions in Washington. I added that when Mr. Welles and myself were in Mexico last week, both the Mexican Foreign Minister and Ambassador Messersmith had similarly indicated the desirability of a statement of this kind. I also referred in passing to the fact that of course the general nature of Señor Buenrostro's conversations was known and that it would be helpful to have an authoritative statement on the subject.

Mr. Ickes then launched into a statement indicating his general dissatisfaction with the way in which these discussions have been handled. He said that the Department of State had infringed upon the powers and prerogatives of the Department of the Interior. He referred to

⁸⁵ General Manager of Petroleos Mexicanos.

⁸⁶ One of the experts designated to represent the United States in determining the compensation due the petroleum interests by virtue of Mexico's petroleum policies. For correspondence on this expropriation policy, see pp. 585 ff.

⁸⁷ Not printed.

Buenrostro's selection of the Universal Oil Products Company as consultant, rather implying that someone had put something over on Buenrostro. I asked the Secretary whether he did not agree that *Petroleos Mexicanos* needed a consultant. He replied in the affirmative. I then told him that Buenrostro had selected Universal Oil Products from a number of available concerns, that Buenrostro was familiar with the ownership and control of Universal Oil Products and that the firm in question had done a good deal of work in Mexico previously. I understood Mr. Ickes to say that he appreciated the high professional standing of Universal Oil Products.

Returning to the question of the manner in which the negotiations with the Mexicans had been conducted to date, I said that we in the Department were most anxious for an opportunity of talking this out with the Secretary of the Interior. I stated that I had understood that the plan which had been agreed to between the two Governments and embodied in an exchange of notes, copies of which had been made available to Mr. Ickes, had received Mr. Ickes' approval in principle. Mr. Ickes then stated that it had been his idea that this Government would build and operate the plant in Mexico. I pointed out to him that this was politically not feasible and I added that there was ample provision in the plan under consideration for the employment by *Petroleos Mexicanos* of suitable experts and technicians. He then asked me who would pass upon the suitability of these experts. I replied, that I assumed he would. I added that it was, of course, our understanding that all plans and specifications would be submitted to the Petroleum Administrator for War, before any further progress could be made.

Mr. Ickes then took up the question of Mr. Pauley. He stated that Mr. Thornburg had considerably disturbed some of Mr. Ickes' people by his insinuations as to this phase of the project. Mr. Ickes expressed the conviction that Mr. Davies⁸⁸ is not moved by any special interest in Mr. Pauley's project except in so far as the engineering and other studies made by Mr. Pauley and his organization might be of use in the carrying out of the President's directive to construct a 100-octane plant in Mexico. The Secretary gave Mr. Davies and Mr. Pauley considerable credit for the initial suggestion upon which this directive was based.

I limited myself to the statement that of course when the PAW⁸⁹ had approved the plans and specifications of the plant, Mr. Pauley would be able to bid.

I concluded that it seemed to me that the Department of State had now carried out its function and that further progress would depend

⁸⁸ Ralph K. Davies, Deputy Petroleum Administrator.

⁸⁹ Petroleum Administration for War.

on the activities of the Petroleum Administrator for War. I repeated that I hoped it might be possible early next week on Mr. Acheson's⁹⁰ return, to have a thorough discussion of the situation.

Mr. Ickes was obviously very much preoccupied with the coal situation, which he said had just been "dumped in his lap". He took the proposed press release, said that he would study it and telephone me this afternoon in regard to it. I reported this to Mr. Ickes' secretary and asked her to do her best to remind him of the matter. Mr. Ickes read the press release but made no specific comment in regard to it.

It was quite evident to me, although he was courteous throughout the interview, that he was definitely prejudiced against the Department in this matter. I believe that I was able to clarify a number of points for him. I spoke to him briefly regarding the general oil situation in Mexico and the expressed desire of Señor Buenrostro to "make peace" with the world oil industry and particularly with the American oil industry, without, of course, relinquishing the principle of the nationalization of the Mexican industry.

812.6363/8005

The Chargé in Mexico (Bursley) to the Adviser on Political Relations (Duggan)

México, D. F., May 21, 1943.

[Received May 26.]

DEAR LARRY: I refer to my letter to you dated February 15⁹¹ concerning a ruling of the Minister of National Economy prohibiting the drilling of oil wells under the direction and supervision of foreign technicians.

I asked Tom Lockett⁹² to follow up on this matter and have now received from him a memorandum dated May 21 which reads in full text:

"Hereto is attached your letter to Mr. Duggan of February 15, in relation to a prohibition of drilling oil wells under the direction and supervision of foreign technicians. I discussed this matter with Minister Gaxiola on May 19 and he said that the article in question was somewhat misleading. He stated that any petroleum company operating legally in Mexico could employ foreign drillers and technicians, provided, it was definitely established to the satisfaction of the Government that such employment was not being used as a means of permitting foreigners to undertake petroleum exploration for their own account. In other words, it must be shown to the Mexican Government that the foreign technicians and drillers are employed ex-

⁹⁰ Dean Acheson, Assistant Secretary of State.

⁹¹ Not printed.

⁹² Counselor of Embassy for Economic Affairs.

clusively for the use and benefit of an oil company operating legally in Mexico and that the foreign drillers and technicians are not being used as a ruse to gain the entrance of foreigners into the oil exploration business for their own account. I hope that I have explained this clearly, but, in ordinary language it means that the Mexican Government fears that legally operated foreign oil interests in Mexico might try to secure the entrance of other foreign interests through the pretext of employing drillers and technicians for the account of the legal company, whereas it would be for other purposes. (s) THL."

I am sending an extra copy of this letter to Mr. McGurk⁹³ to whom I had sent a copy of my letter of February 15.

Sincerely yours,

HERBERT S. BURSLEY

810.6363/303

The Ambassador in Mexico (Messersmith) to the Assistant Chief of the Division of the American Republics (McGurk)

México, D. F., August 31, 1943.

DEAR JOE: I have to refer further to the Department's airgram No. A-2556 [2356] of August 18, 2:30 p. m.,⁹⁴ concerning the visit to Mexico City of Mr. L. H. Nuland, who is the liaison officer of the Petroleum Administration for War to the Department. I have also to refer to my airgram in reply, No. A-1925, of August 20, 11 a. m.,⁹⁴ and to my letter to you of August 19.⁹⁵

I said that I would be glad to see Mr. Nuland, and talk these matters over with him on his arrival here.

Mr. Nuland arrived here several days ago but I was out of the city for the week-end for an absolutely essential rest, and I did not see him until this morning. He explained that he had been in certain countries of Central America with respect to the petroleum pool arrangements.⁹⁶ He referred to at least one shipment of gasoline which had been made by Pemex to Guatemala and one shipment which had been made to Salvador. He said there had been other shipments. The total volume of the gasoline shipped by Pemex to countries of Central America, however, had been very small. The volume, in fact, was not sufficiently important in any way to affect the situation. Mr. Nuland wished to know whether I considered that these shipments of Pemex to the Central American countries had any political significance. I told him that I could see no possible ground for any political significance to such shipments and that I thought from the

⁹³ Joseph F. McGurk, Assistant Chief of the Division of the American Republics.

⁹⁴ Not printed.

⁹⁵ Not found in Department files.

⁹⁶ For correspondence on the pool arrangements in Costa Rica and El Salvador, see pp. 91 ff. and pp. 312 ff., respectively.

political point of view, Mexico was not interested at this time in making shipments of gasoline to the Central American republics. Mr. Nuland said that he was very much interested to know that there were no political implications. I was not quite able to gather what political implications he thought such shipments might have, but they certainly do not have any, and I made this clear to him.

I told him that I thought Pemex was not interested in shipping gasoline to the Central American countries at this time. I said that production in Mexico had decreased and consumption had increased so that gasoline was really almost a scarce article here. I said that Mexico might be able to export some heavy fuel oils, but certainly could not export gasoline without injury to herself. There are certain areas in Mexico where gasoline is already short, particularly in agricultural areas, and this is partly a question of short supply and partly of distribution. I said I did not believe that Mexico or Pemex was for the present interested in shipping gasoline outside the country, and that if such shipments had been made, it was probable that they were the result of some special arrangements which had been entered into through some pressures.

I asked Mr. Nuland what the problem was in which he was interested, and he said that naturally these shipments from Mexico were disturbing so far as the pool arrangements were concerned. I told him that I could see this, but I gathered from what he said that the shipments had been so small as not really to affect the pool arrangements seriously. He said that this was so. I gathered therefore that it was more a question of principle.

I told Mr. Nuland that Mexico was not a party to the petroleum pool or to any of these arrangements and that she was of course free to ship petroleum to any destination she saw fit. She had a perfect right to do this, and I did not see how we should endeavor to interfere with it, except that the Mexican Government found that it was to its own advantage not to make such shipments; we were in a position to subtract from the allotments of the countries receiving gasoline from Mexico, any gasoline received from Mexico. I reminded him that even in times of war we and other countries endeavored to maintain normal channels of trade so far as we could, and that every country had a right to endeavor to maintain such normal channels as far as possible, and that other countries had just as much right to do this as we. He agreed that this was so but said that Mexico had not sent gasoline to these countries before.

I told Mr. Nuland that I thought it would be undesirable to raise this question with the Mexican authorities while he was here. I said that I was sure that the Mexican Government and the Pemex had no interest in shipping gasoline at this time to Central America. I said

that I thought if the matter were brought to the attention of the Mexican Government in the proper way, the appropriate steps would be taken to stop such shipments. I said that the matter could be taken up either by the Department with the Mexican Embassy in Washington or by the Department with this Embassy, so that we could write a note to the Mexican Government and I would deliver it with the appropriate explanations. I thought the latter course was the best one for many reasons, and he agreed. I said that if he would furnish the Department the appropriate information as to shipments which had been made by Pemex to Central American countries and indicate this was disturbing the petroleum pool arrangements which were on the whole advantageous, the Department could then give me the necessary instructions and I would take up the matter with the Foreign Office and I was sure that Pemex would stop any exportations of gasoline to the other American republics, at least during the war. I reminded him that Mexico was interested in much more major phases of the oil problem so far as we were concerned, than the question of sending a few gallons of gasoline which they themselves needed to Central American [countries], and that Mexico was interested in participating eventually in world distribution of petroleum products and that she would therefore have an understanding of these pool arrangements.

Mr. Nuland seemed to be thoroughly satisfied with what I told him and said that he would take up the matter with the Department on his return, along the lines indicated in this letter. The matter is really of very secondary importance because the quantity of the shipments has been very small and because I know that the Mexican Government has no interest in shipping gasoline at this time outside the country.

I shall be glad to take any steps which the Department thinks appropriate.

With all good wishes,

Cordially and faithfully yours,

G. S. MESSERSMITH

810.6363/205

The Secretary of State to the Ambassador in Mexico (Messersmith)

No. 4606

WASHINGTON, October 23, 1943.

SIR: Reference is made to your conversation with Mr. L. H. Nuland, during his recent visit to Mexico City, in regard to shipments of Mexican gasoline to Central America and to your letter of August 31, 1943 to Mr. Joseph F. McGurk in which you suggest a possible approach toward a solution of this matter.

As you state in your letter referred to above, the shipments have been relatively small, particularly in Costa Rica. In Guatemala, however, by June they had reached an amount which represented an increase to the pool allotment of gasoline for Guatemala of 20 per cent—which, of course, is considerable. Subsequently, however, arrangements were apparently taken under local rationing systems which brought the price of this excess gasoline down and the imports into Guatemala of Mexican gasoline dropped from 2320 barrels in June to 510 barrels in July, none in August and 381 barrels up to September 23. Therefore, while this continues to have a definite irritation value, the matter is of little importance at present in so far as the quantities of gasoline are concerned.

Production figures which have just been given to the Foreign Division of the Petroleum Administration for War by officials, including the export manager, of Pemex indicate that Pemex really has no gasoline production for export, domestic consumption being able to take care of all present production. This would seem to indicate that such shipments as have been sent to Central America, despite this situation, are with an eye to the future. In a recent telegram the Embassy at Guatemala City has advised us that it has learned that Pemex agents at Guatemala City, Peyre and Company, have applied to the War Department there for licenses to erect two 25,000 gallon tanks in Guatemala and have requested licenses for three additional retail outlets. The Embassy stated that the materials for the tanks are being obtained from Mexico, and that if the tanks are installed they will provide fulfillment of one of the Guatemalan conditions for further operations, the other being that the gasoline supplied be of the same octane as that supplied by American distributors.

However, the enclosed secret airgram of October 11, 1943 from the Embassy at Guatemala City⁹⁷ states that the representative of the Texas Company in Mexico (the representative of that company in Guatemala is a member of the pool committee in that country) has had conversations with Pemex for the purpose of exploring the possibility of the Texas Company's buying petroleum supplies from Pemex for the Guatemalan market. The airgram points out that the other companies in the Guatemalan pool would be able to obtain supplies from the Texas Company in accordance with pool operating principles; and that the plan, if executed, would constitute a solution of the problem of Mexican supplies to Guatemala. It will be noted that the Embassy states that Pemex' reaction to the Texas Company's approach was favorable and there is reason to believe that an arrangement along the lines outlined may be made.

⁹⁷ No. A-504, not printed.

From the viewpoint of the Inter-American Petroleum Supply Pool, the development of all available sources of supply is favored. Moreover, there is now an over-all shortage of gasoline, diesel oil and kerosene in this hemisphere, with increasing war demands for those products. Thus there would be an advantage to the whole supply picture if satisfactory arrangements could be made whereby the Supply Pool could avail itself of Mexican gasoline in supplying a part of the needs in the Central American area.

The Pool is for the purpose of effecting an equitable distribution among all participating importing countries of the maximum supplies that can be made available. To accomplish this purpose, all available supplies and supplying facilities must be pooled together. Hence any supplies from Mexico, of course, would have to form a part of the allotments to each country. Otherwise, the Central American countries receiving Mexican oil as additional allotments would have an advantage over other pool countries receiving only regular allotments from present sources. In other words, the benefits to the Pool from any additional supplies from Mexico would have to be spread equitably among all pool importing countries and not accrue only to Central American countries.

Accordingly, it is believed that a solution beneficial both to the operation of the Pool in the Central American area and to the long-range interests of Mexico might be worked out whereby Mexican gasoline would be sold to the pool companies for distribution by the pool organization in the Central American countries during the life of the Pool. Under the pool arrangement of distributing curtailed products in necessarily restricted markets, the positions of the companies in the markets of the importing countries had to be frozen on the basis of their previous position. For this purpose the trade position in 1941 was taken as the basis of market allocation among supplying companies. The freezing of the companies' positions in the various markets has, of course, clearly circumscribed their activities from the competitive standpoint. Thus, in this situation, the regular supplying companies cannot help but be disturbed by the entry of Pemex into any importing pool country as a distributor or marketer during the life of the pool arrangement since, because of their cooperation in the Pool, they are not in a position to offer normal competition to a new marketer who would be taking a part of their already curtailed market. The successful operation of the Pool in performing its very important function in this hemisphere rests largely upon the full cooperation which the companies have accorded.

As indicated above, from the Mexican point of view a definite advantage might accrue to Pemex from an arrangement whereby the pool organization could avail itself of Mexican gasoline, the

distribution and marketing within pool countries being handled by that organization. As you know, this country is changing from an export to an import basis in regard to oil. In the future the Mexicans might be able to make a very satisfactory arrangement with the companies now operating under the Pool whereby the latter would transport and market Mexican oil in various markets. From a long-term viewpoint, therefore, this alternative has a good many very desirable aspects, and it might be useful to consider this with respect to the general rehabilitation of the Mexican petroleum industry as a whole, not merely during the present war but also for the period after the war. In many ways, the cooperation of Pemex in this matter at the present time might make it very much easier for Pemex after the war.

We believe that an informal approach to Buenrostro or some other appropriate official along the foregoing lines merits your consideration. As indicated in the enclosed telegram from Guatemala City, Pemex has reacted favorably to a similar approach from one of the pool companies, and an official of the Foreign Division of the Petroleum Administration for War has stated his belief, from evidence received during a recent informal conversation with Pemex officials, including the export manager, that Pemex would view favorably the possibility of an arrangement such as that outlined. Conversations by you with the appropriate officials might not only facilitate the proposed arrangement regarding the Guatemalan market but might also assist in the reaching of similar solutions in other Central American countries.

If you discuss this matter with the Mexican officials, you should make it clear that the effectuation of the scheme would depend, of course, upon working out all details with the Pool organization and the companies operating therein. It should be understood, of course, that any arrangements between Pemex and the Pool in regard to marketing in the Central American countries would be for the duration of the emergency only.

In general connection with this subject it may be pointed out that while Mexican gasoline has been shipped to Central American countries, the United States supplied about 110,000 barrels of gasoline to the northern part of Mexico during the first half of this year, and it is believed that the quantity will be greater during the second half of the year. The supplying of gasoline from this country to northern Mexico has been because of geographic considerations. However, because of the tightness of the gasoline supply situation, it is conceivable that it may not be possible to continue these supplies at this rate.

In conclusion we wish again to present the thought that if Pemex continues to try to sell even in small quantities to pool importing

countries and outside the Pool organization, such action must have an adverse effect on the companies cooperating in the Pool, and Mexico, as you know, may have to depend on them for marketing facilities if she is to expand her oil outlets throughout the world.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

812.6363/8032a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, November 12, 1943—3 p. m.

1955. The Department has reviewed your letters of October 20 and 29 ^{97a} to Duggan and related correspondence regarding the Mexican petroleum situation.

As matters now stand, the Embassy has presented a memorandum to the Mexican Government setting forth for its consideration certain ideas (your despatch 8862 of April 2).⁹⁸ The Mexican Government has indicated, particularly in the conversation between President Avila Camacho and President Roosevelt, that it considers that the memorandum offers a basis for discussion. It has not, however, presented any definite or specific comment.

While the Department has read with interest the material enclosed with your letters of October 20 and October 29 to Duggan, it has no specific comment at this time and believes that detailed consideration of the points raised should await some specific and definitive statement from the Mexican Government with regard to the memorandum which was presented to the Mexican Government last March.

The Embassy and the Department seem to be in agreement that this is a question not to be settled by bilateral agreement but rather that following the conclusion of the exchange of views the Mexican Government will issue a statement of policy regarding the exploitation and development of Mexican oil resources, that where necessary this statement will be implemented by proper legislation and regulations, and that agreements will then be negotiated between the Mexican Government and United States companies. This Government will not participate in the negotiation of these agreements, although its good offices will of course be constantly available to facilitate the discussions between the Government and United States private interests.

The Embassy is believed to be fully aware of the rapid depletion of United States oil reserves, a depletion greatly accelerated by the great demand for petroleum products during the war. The United

^{97a} Neither found in Department files.

⁹⁸ See footnote 84, p. 458.

States is rapidly reaching the point where it must import oil from foreign sources. Negotiations are now progressing in many parts of the world to assure the United States the supplies it needs. Against this background, the vast importance of the Mexican negotiations is at once apparent. The Department is confident that the personal attention which it knows you will give this matter will produce the result so necessary to the future welfare of this country.

HULL

812.6363/8037

The Ambassador in Mexico (Messersmith) to the Secretary of State

[Extracts]

No. 14,524

MÉXICO, D. F., November 30, 1943.

[Received December 4.]

SIR: I have the honor to refer to the Department's strictly confidential telegram No. 1955 of November 12, 3 p.m. . . .

Keeping in mind the importance of Mexican oil resources being developed as rapidly and as effectively as possible, I have not failed to keep in mind the desirability of reopening conversations on major oil policy with the President and with the Foreign Minister at the earliest appropriate opportunity. During a conversation which I had the opportunity of having with the President last evening, I stated that I had had this conversation with Mr. Buenrostro, referred to in my letter to Mr. Duggan of November 28,⁹⁹ and that it appeared that the situation with respect to the rehabilitation of the refineries and the construction of the high octane plant were progressing satisfactorily and that if all went well Mr. Buenrostro would be able to go to Washington in December in order to complete the arrangements with the Export-Import Bank concerning these projects. I referred with satisfaction to the final liquidation of the expropriations.¹ I referred to the various memoranda which I submitted to the Mexican Government towards the end of 1942 and early in 1943 with reference to major oil policy and to the statements which he had made to President Roosevelt at Monterrey that in principle he believed these memoranda served as an adequate basis for further conversations.

I said to the President that the way now seemed to be thoroughly open for the discussions of this question of major oil policy in the most favorable atmosphere and that it was my intention to begin conversations with Dr. Padilla, the Minister of Foreign Relations, immediately on the basis of the memoranda already submitted. The

⁹⁹ Not found in Department files.

¹ For correspondence on this subject, see pp. 585 ff.

President said that he was aware of the importance of this oil problem for us and for Mexico and for this Hemisphere and that he had been giving a good deal of thought to the matter and that I would find Dr. Padilla prepared to continue the discussions. The President said that it would be more helpful for us not to enter into details at the moment until I had carried on the discussions with Dr. Padilla further.

I called on Dr. Padilla in the Foreign Office this morning for the purpose of discussing major oil policy and was prepared to do so on the basis of the memoranda under reference and of the Department's telegram No. 1955 of November 12, 3 p.m. Dr. Padilla said that he was prepared to enter into these discussions. He said that the Mexican Government had been giving very careful consideration to the problem of major oil policy. He said that he was fully familiar with the importance of the problem from our point of view as well as the Mexican point of view and of the advantage to this country. He realized the enormous strain we were placing upon our oil resources in the United States as a major burden for supplying most of the oil and lubricants for the war effort was falling on us.

Dr. Padilla said that he had discussed this matter with the President a few days ago and that under directions of the President he was entering into discussions first with Mr. Buenrostro, the head of Pemex, and Mr. Suárez, the Minister of Finance, who is on the Board of Pemex. The Minister said that while he had quite well in mind the memoranda to which I have made reference in this despatch he would wish to refresh his memory and have certain conversations with Mr. Buenrostro and Mr. Suárez before he entered into detailed discussions with me. . . . The Minister, however, said that the President and he were conscious of the fact that Mr. Buenrostro still believed that it would be possible for Pemex on its own to adequately develop the Mexican oil resources—and without the help of foreign private companies and capital. The Minister said that he thought that Mr. Suárez had a more understanding point of view so far as the necessity for the intervention of foreign companies and private capital were concerned. He had, therefore, made arrangements to meet with Mr. Suárez and Mr. Buenrostro before the end of this week in order to have a thorough discussion of this point. He made it clear that it would be necessary to convince Mr. Buenrostro of the fact that Pemex on its own resources would not be able adequately to develop the Mexican oil resources.

I said to the Minister that I was happy to hear that he and his associates were giving this continued and careful thought and to have this expression of his views. I said that as he knew, it was my opinion, and the opinion of my Government, that Pemex under the

most favorable circumstances would not be able to develop the Mexican oil resources adequately within the next 50 years and by that time another fuel might have been discovered which would make the potential oils under the Mexican soil of no avail. I said that he realized from the memoranda which we had submitted that we envisaged the collaboration of American companies, and of foreign companies if the Mexican Government so saw fit, in the form of contracts with Mexico. I said that the matter had constantly a greater urgency and that I hoped that we would be able to renew our conversations very shortly.

The Minister said that he thought a great deal of ground would be gained if he had this conversation first with Mr. Suárez and Mr. Buenrostro and that immediately thereafter he would get in touch with me. He said that in the meantime he would also again study very carefully the various memoranda which we had submitted, which, however, he felt he had well in mind for he had been giving this matter constant thought.

With reference to the Department's telegram No. 2050 of November 27, noon,² covering the conversation with Mr. Garfías of the Cities Service, I thought it advisable in view of approaching conversations between the Minister and Mr. Suárez and Mr. Buenrostro to inform him of the fact that Mr. Garfías has been discussing the matter of his company with Mr. Suárez, the Minister of Finance. I told the Minister that we had informed Mr. Garfías that it has been and was the view of the Department and of this Embassy that it would be more desirable to await the conclusion of the conversations between our Government and the Mexican Government before specific conversations with the Mexican Government or Pemex were entered into with private companies. I said that Mr. Garfías had indicated that in his opinion Mr. Suárez was empowered to negotiate an agreement with Cities Service and I said that I doubted this in view of the fact that I doubted whether the Mexican Government would be prepared to proceed in conversations with an individual company before it had made any determination of policy. The Minister indicated that this was his view.

I shall keep the Department fully informed of developments and I shall keep this matter actively before the Minister of Foreign Affairs and the President.

Respectfully yours,

G. S. MESSERSMITH

² Not printed.

812.6363/8046

The Ambassador in Mexico (Messersmith) to the Secretary of State

[Extracts]

No. 14904

MÉXICO, D. F., December 20, 1943.

[Received December 27.]

SIR: I have the honor to refer to my strictly confidential despatch no. 14524 of November 30, 1943 with respect to the conversations which I have been having with the Mexican Government on major oil policy in which I referred particularly to the Department's strictly confidential telegram no. 1955 of November 12, 3 p. m.

I was finally able to make an appointment with the Minister of Foreign Relations, Dr. Padilla, for a full discussion of major oil policy for December 20 at noon. I had at least a three hour conversation with him on this matter which, on the whole, was most encouraging.

Although, as the Department is aware, I have been in constant touch with the Minister of Foreign Relations on questions of major oil policy which I have also discussed from time to time with the President of Mexico, I had not been able recently to have any discussion with respect to details in view of the fact that the Minister informed me that he was actively pursuing conversations under directive of the President with various of the members of the Government more particularly interested in this matter.

In view of the increasing urgency of the Mexican Government reaching a decision with regard to major oil policy, I thought it desirable for my conversation with the Minister today to prepare for my own assistance and guidance a memorandum of points to be discussed during the conversation. I, therefore, prepared yesterday a very full statement covering in résumé the two major memoranda which I have left with the Mexican Government in August of last year³ and early this year,⁴ as well as sufficient detail to cover the basis of full consideration by the Minister and his associates.

. . . He said that he understood that we were in complete agreement as to the recognition of the principle that all subsoil rights were the property of the Mexican Government and people. I assured him that we were. He said that he took it for granted that we were in agreement that the American companies and American capital should come in not through concessions but rather through contracts with Petroleos Mexicanos or the Mexican Government which contracts

³ See instruction No. 1336, August 6, 1942, to the Ambassador in Mexico, *Foreign Relations*, 1942, vol. vi, p. 528.

⁴ See footnote 84, p. 458.

would clearly define the limits of action of the companies. I said on this point there would be no question. The Minister said that he understood that we were in agreement that the refining and distribution of oil for Mexico's own purposes and needs should not in any way be touched by these contracts as these would remain monopolies of Pemex. I said on this point I felt sure there would be full understanding and no lack of agreement but I expressed the hope that the Mexican Government would not in its declaration of policy altogether exclude the possibility of American companies refining some of the oil which they produced in Mexico with the understanding, of course, that the production would be first available to Petroleos Mexicanos for internal use in Mexico at fixed prices—if so desired. I said that I thought it would not be advisable in the interest of the Mexican economy or industry to close the door entirely to the eventual possibility of some of the American companies being permitted to engage in refining operations as long as such operations did not conflict or compete with those of Pemex. The Minister expressed a good deal of understanding of this point of view. The Minister further said, of course, that it would have to be understood that all questions affecting labor, etc., in connection with the refineries were under the complete authority of the Mexican Government and that companies brought in under contract would not claim any special privileges in this connection. I told the Minister that I was sure there was full understanding of this by the companies.

The Minister said that on the basis of these general understandings he thought he was making progress with the other members of the Government towards a definition of major oil policy. The Minister said that his Government was very glad to discuss this matter with us prior to reaching its decisions on major oil policy, as it considered it of primary importance that Mexico and the United States should work together in this matter. He said, of course, once the Mexican Government arrived at its decisions with respect to oil policy, they would be made as a unilateral statement of the Mexican Government but he was exceedingly hopeful that the policy formulated by the Mexican Government would be entirely satisfactory to our Government before it was put in final form. He considered this as absolutely essential in view of the fact that as he saw it, American companies and capital could and should play the major part in the development of Mexican oil resources so far as foreign capital is concerned.

In this connection the Minister made some interesting observations with regard to the negotiations under progress with Great Britain for the settlement of the expropriation of the British and Dutch companies and I will refer to this in another communication. It is interesting, however, to note that from the Minister's conversation, it

was obvious that he is of the opinion that Mexico's oil policy must be more closely coordinated with that of the United States than with that of any other country. The Minister is deeply appreciative of the importance of Mexican oil resources and reserves as a matter of continental security and also as a matter of primary concern to us because of our rapid exhaustion of our reserves due to the tremendous amount of oil we are putting into the War effort. I gathered from his conversation that the attitude towards American capital and American companies was favorable and that the Mexican Government would look with more favor on American capital and companies in this relationship with Pemex than that of other countries.

In this connection I may say that I have endeavored in a very proper way to emphasize to various officials of the Mexican Government the importance which I attach to our companies being given a chance and perhaps preferential treatment but at least a first chance in view of the fact that in many respects they are in a better position to aid in the development of Mexico's oil resources than those of any other country. I feel sure that the President and the Minister of Foreign Relations share this idea. I am not yet certain to what degree it is shared by other members of the Government.

The Minister stated that he realized the essential importance of Mexico's reaching rapid action on this matter and that he would do everything to facilitate the formulation of a statement of major oil policy. He gave me the hope that the matter was developing in a very satisfactory way and that he would soon have "very good news" for me.

He understands that it is my intention to leave here around January 10 or 11 for a two weeks' stay in Washington and he said that he hoped that before I left I would have some very definite and favorable information which I could transmit to the Department at that time.

The Department will understand that my leaving this informal memorandum hereto attached ⁵ with the Minister does not undertake any commitment for our Government whatever as I made it clear that the memorandum had been prepared for my own guidance only during my conversation with him and that I was leaving it with him specifically with the understanding that it was an informal and unofficial document which might be of some use to him in the consideration he would give to our conversation of it.

Respectfully yours,

G. S. MESSERSMITH

⁵ Not printed.

**EFFORTS OF THE UNITED STATES AND MEXICAN GOVERNMENTS TO
ELIMINATE AXIS INFLUENCE FROM MEXICAN FIRMS AND TO PLAN
THEIR OPERATION**

740.00112A European War, 1939/16292 : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, January 13, 1943—4 p. m.

72. From Acheson.⁶ The Department, as you are aware, is fully cognizant of and sympathetic with the difficulties which confront the Mexican Government in its program of eliminating Axis influence from the Mexican firms which were placed in category I in your despatch no. 3415 of August 19, 1942.⁷ At the same time the Department wishes to take all practicable steps to terminate as soon as possible the present situation which is unsatisfactory both from the point of view of the Mexican Government and hemisphere defense. The appointment of governmental interventors has, in the eyes of the Mexican public, substantially removed the stigma which previously attached to firms included in the Proclaimed List, and to this extent has seriously impaired the effectiveness of the Proclaimed List program.

During the present period following intervention and prior to vesting no adequate local controls have become effective to compensate for this serious impairment of our Proclaimed List controls. In addition, during this period, no names have been or are being added to the Proclaimed List for Mexico although facts have been reported which would ordinarily result in such inclusions. In as much as the procedure which has been agreed upon for the establishing of supplementary local controls by Mexico is being watched with considerable interest as the basis for meeting similar problems in other American republics, the Department believes that it should do everything that it can to assist in a successful conclusion of this program, which has been agreed upon by the Department and the Mexican Government,

⁶ Dean Acheson, Assistant Secretary of State.

⁷ Despatch No. 3415 of August 19, not printed. The Ambassador enclosed a memorandum dated August 10, 1942, agreed upon with the Department which he had presented to the Mexican Minister for Foreign Affairs (Padilla). This memorandum explained at length the "Proclaimed List of Certain Blocked Nationals" and had as annexes lists of firms on the Proclaimed List domiciled in Mexico, divided into three categories: The first category contained the names of those persons and companies whose business was essential to Mexican economy; the second category contained those of little economic importance; and the third included the names of Japanese, Italians, and Germans who should remain on the Proclaimed List.

The memorandum expressed the desire of the Government of the United States to cooperate closely with the Mexican Government in eliminating enemy interests.

The Ambassador reported that the Mexican Minister for Foreign Affairs had told the Ambassador that he could depend upon the most loyal collaboration of his Ministry and the Mexican Government.

for adjusting Proclaimed List controls to the economic and defense needs of Mexico.

Undoubtedly both the Policy Council and the Committee of Vigilance and Administration by now have a clear conception of the problems faced by Mexico in executing its agreement last August.⁸ It is realized that these problems may be substantial and it is also believed that this government may be of assistance in meeting some of them. The Department, however, does not have sufficient information regarding the character of the assistance which may be indicated and the time when it may have to be supplied. Accordingly it is believed that your forthcoming visit⁹ will offer a valuable opportunity for the Department and the other interested government agencies, such as BEW,¹⁰ to review the progress which has been made and to explore fully the problems involved.

The Department will be interested in discussing in particular the following topics relating to the execution of the program:

1. The exact nature of any difficulties which may be confronting the Mexican Government in this connection, e.g., whether the Mexicans are faced with any difficulties because of their comparative inexperience in certain industrial enterprises, the dearth of managerial and technical personnel, unavailable local capital, or the lack of trained governmental administrators; whether the government is confronted with any serious problem because of the influence of the undesirable firms in deterring the government in the execution of the program.

2. What progress the Mexicans have made in planning solutions to the problems confronting them? Whether the Mexican authorities have set for themselves any date at which it may be expected that a substantial number of the undesirable firms will have been vested following the elimination of all pro-Axis elements. We shall be particularly interested in being advised as to whether the Policy Committee and the Committee of Vigilance and Administration have formulated any overall program and any concrete plans for specific firms or industries. The Department is, of course, aware of the tentative plan that the American Cyanamid Company assume the management of the chemical, drug and pharmaceutical enterprises which have been intervened. We should be interested to know whether similar proposals have been made in respect of other types of enterprises included in Category I.

3. The extent to which United States private, technical or governmental assistance, such as Export-Import Bank credits, may be required. In this connection it would be helpful to know whether the Mexicans wish offers of assistance at this time and, if so, what form such offers should take. The discussion of this topic will obviously be most fruitful if it can concretely be related to specific enterprises or industries.

⁸ Apparently a reference to discussions reported in despatch No. 3415, August 19, 1942, from the Ambassador in Mexico; see footnote 7, p. 476.

⁹ The Ambassador left Mexico City for the United States on January 15, 1943, and resumed charge of the Embassy on March 1.

¹⁰ Board of Economic Warfare.

4. The manner in which exports from the United States to Mexico may be affected, that is, whether a larger or smaller volume of exports from the United States will be required. Would the prospect of increased supplies to the reorganized enterprises expedite the accomplishment of the program?

5. The effect which it will have on the BEW's imports program, that is, to what extent materials now exported to this country may be required by Mexico or to what extent Mexico may augment its present exportable surpluses to this country.

6. Whether it envisages the development of new industry. For instance, the American Cyanamid proposal apparently contemplates the development of new chemical industries.

7. The plan that American Cyanamid Company should assume the management of vested drug and pharmaceutical enterprises. In the discussion of this topic we should like to explore the problems referred to in our A-894 of January 7, 7:10 p. m.¹¹

You may wish to have one of your assistants accompany you in order to deal with the detailed problems which will be raised in Washington. [Acheson.]

HULL

740.00112A European War 1939/24864

The Chargé in Mexico (Bursley) to the Secretary of State

No. 6930

MÉXICO, D. F., January 26, 1943.

[Received February 5.]

SIR: I have the honor to refer to the Embassy's Despatch No. 2045 of June 13, 1942, which was accompanied by the text of the Mexican decree, which relates to the subject of trading with the enemy, the Regulations pertaining thereto and the English translations thereof.¹²

The Embassy has ascertained that the Board of Administration and Vigilance which, under the promulgated Regulations, is the body authorized and empowered to administer the intervened properties, has initiated action for the disposal of certain of the seized concerns.

The findings of an investigation undertaken by the Embassy are furnished for the Department's general information and also as a matter of possible particular interest since it is conceivable that persons who are interested in acquiring these concerns from the Mexican Government, may seek to finance their purchases or their subsequent operations through the introduction and utilization of American capital.

El Nuevo Japón, S. A., was the first of such seized firms to be offered for sale. In the issue of the Mexican official publication, *Diario Oficial*, of December 8, 1942, a notice appeared inviting interested persons to present bids for the purchase at public auction of the inter-

¹¹ Not printed.

¹² None printed.

vened concern, El Nuevo Japón, S. A., which notice contained detailed information relating to the time, place, terms, and conditions of the proposed sale. The Spanish text and an English translation thereof are attached hereto as enclosures.¹³

Advertisements of the sale of several other seized concerns have since appeared in the *Diario Oficial*. Attached hereto as an enclosure is a tabulation containing the names of, and brief information concerning each of such concerns.¹³ The wording of the published Notices is substantially the same for each case except, necessarily, in respect of names, dates, terms of sale et cetera.

The Embassy will continue to gather and assemble data respecting additional seized businesses which may be offered for sale in the future and will submit periodic reports thereof to the Department.

Respectfully yours,

For the Chargé d'Affaires a. i.

CHARLES A. BAY
Commercial Attaché

740.00112A European War 1939/24873

The Chargé in Mexico (Bursley) to the Secretary of State

No. 7000

México, D. F., January 29, 1943.

[Received February 5.]

SIR: I have the honor to refer to the Department's Circular Instruction dated December 17, 1942,¹⁴ File No. 740.00112A European War, 1939/22236B, entitled "Vesting, Forced Sale and Intervention of Proclaimed List Business Enterprises Essential to the Local Economy," wherein the Department discusses the best means of removing undesirable interests from those business enterprises essential to the economy of the nation in which the Mission is located. The circular together with the two enclosures transmitted therewith have been of considerable assistance to the Mission in considering these problems, although, under the peculiar conditions existing in Mexico certain of the Department's observations set forth under the Instruction under reference, such as, the classification of Proclaimed List firms, are not applicable to the problems confronting this Mission.

In its despatch No. 6930, dated January 26, 1943, entitled "Intervention by the Mexican Government of Firms on the Proclaimed List,"¹⁴ this Mission submitted to the Department the names of certain Proclaimed List firms made the subject of forced sale by the Mexican Government. In connection with these sales, the Embassy knows of no instance where financial aid or technical or managerial assistance is needed. Any such instances coming to the attention of this Mission

¹³ Enclosures not printed.

¹⁴ Not printed.

will be promptly reported to the Department, in accordance with the provision of the Instruction under reference; as will also additional information obtained regarding the sales mentioned in the Embassy's despatch No. 6930 cited above or regarding any additional sales advertised by the Mexican Government.

Respectfully yours,

For the Chargé d'Affaires a. i.

CHARLES A. BAY
Commercial Attaché

740.00112A European War 1939/25228

The Chargé in Mexico (Bursley) to the Secretary of State

[Extracts]

No. 7286

México, D. F., February 8, 1943.

[Received February 13.]

SIR: I have the honor to inform the Department that a conference was held at the Foreign Office on January 25 between Mr. Tello,¹⁵ the Commercial Attaché¹⁶ and the Economic Counselor¹⁷ on several different subjects, including: (1) the Proclaimed List; (2) seizure of intransit rubber; and (3) payments to Switzerland for merchandise. This was the first of a series of informal conferences to be held at the suggestion of the Foreign Office in order that various subjects might be treated informally instead of by means of the more formal procedure of notes or memoranda. This despatch treats only that part of the conversation which concerned the Proclaimed List.

Mr. Tello said that the Inter-Secretarial Committee, composed of Cabinet Ministers, had reached the conclusion that the Mexican Government had taken very strong and advanced measures in the case of intervened Axis firms, in fact, much stronger and more severe than had been the action by most other nations. Mr. Tello said that, however, this was not the reason why the informal conferences had been suggested, but, the Inter-Secretarial Committee wanted our Government to know that certain insurmountable difficulties had been encountered by the Mexican Government in its attempt to carry out all of the provisions of the Alien Property Law. He stated that under the circumstances it was decided that through informal conferences an avenue of procedure could be worked out which would be acceptable to the American Government as well as feasible for execution by the Mexican Government.

In summary, the suggestions of Mr. Tello are that (1) intervened

¹⁵ Manuel Tello, Chief of the Diplomatic Section of the Mexican Foreign Office.

¹⁶ Charles A. Bay.

¹⁷ Thomas H. Lockett.

firms which have been sufficiently freed of undesirable elements should be removed from the Proclaimed List; (2) those intervened firms not sufficiently freed of undesirable elements to warrant removal from the Proclaimed List should be studied and suggestions made as to what requirements must be fulfilled to cause their removal; (3) those companies on List III of sufficient size to warrant intervention should be suggested for such action; (4) those companies on List III not of sufficient size to warrant permanent intervention should be listed for closing; and (5) individuals on List III could not be placed on a Mexican blacklist, but should be retained on the American Proclaimed List.

The above-described conference with Mr. Tello is of particular importance because of the very unsatisfactory situation which had developed in reference to the intervened Axis companies. The interventors in these companies are direct representatives of the Federal Government. They have taken over the management, accounts, property and transactions of the companies. The Mexican Government has taken the position that these companies are now under the full jurisdiction of the Government and, therefore, there should be no interference in any transactions which they perform or which are performed with them within Mexican territory. These intervened companies are sending out orders to non-Proclaimed List companies in Mexico which are signed or approved by the Federal interventors. If the non-Proclaimed List company refuses to supply the materials on the basis that the intervened company is upon the American Proclaimed List, then, the interventor immediately takes the matter up with the non-Proclaimed List company on the basis that it is refusing to sell to a company under the management of the Federal Government. The Department will well appreciate that this places us in a very embarrassing and uncomfortable situation, because in many cases imported American products are involved. The situation becomes more embarrassing when the non-Proclaimed List company asks the Embassy as to whether or not it should supply the material to the intervened company which is still upon the Proclaimed List. In other words, as matters now stand with reference to the intervened companies, many non-Proclaimed List companies are afraid not to supply the requests of the former, because of action which might be taken against them by the Federal Government. Consequently, the effects of the Proclaimed List, as far as transactions with intervened companies within Mexico are concerned, are being rapidly and surely annulled and the longer this situation is allowed to exist, the more chaotic it will become. Although these intervened companies cannot import direct from the United States, under force of pressure they are causing companies which do import direct to sell them

merchandise. The Embassy has never taken the position that it has any control over commercial acts performed within the territory of Mexico, but, it has observed very carefully such transactions with Proclaimed List firms and has recommended to the Department that companies in Mexico dealing with Proclaimed List firms be placed upon the List so that they could not receive products from the United States. The pressure now being employed by the interventors is producing quite an unsatisfactory situation as far as the Proclaimed List is concerned and, therefore, the results of our conversation with Mr. Tello are of vital importance in arriving at a solution of the Proclaimed List problem in Mexico.

What Mr. Tello suggested is nothing other than the beginning of the solution of the second half of the Proclaimed List problem as suggested by Ambassador Messersmith to the Foreign Office. This unsatisfactory interim period was anticipated and could not have been avoided, therefore, the quicker the solution for the second half of the problem is put into effect, the sooner will the entire problem be satisfactorily disposed of.

The Department's viewpoints on this subject are very urgently requested. A copy of this despatch is being forwarded for the personal attention of Ambassador Messersmith who is familiar in every detail with this problem. The subject of this despatch has been fully discussed with the Chargé d'Affaires ad interim.

Respectfully yours,

For the Chargé d'Affaires ad interim :

THOMAS H. LOCKETT

Counselor of Embassy for Economic Affairs

740.00112A European War 1939/25921

The Chargé in Mexico (Bursley) to the Secretary of State

No. 7585

México, D. F., February 20, 1943.

[Received February 25.]

SIR: I have the honor to refer to the Embassy's despatch 7286 of February 8, 1943, concerning the conference at the Foreign Office on January 25, 1943, between Señor Tello, the Commercial Attaché and the Economic Counselor of the Embassy with regard to Proclaimed List matters, and to inform the Department that following Señor Tello's promise to submit to the Embassy a statement of the action taken by the Mexican Government with respect to intervened firms, the Embassy received a memorandum dated February 13, 1943¹⁸ containing data on this subject. Señor Tello recently telephoned the Embassy, stating that he desired to confer with Messrs. Lockett and

¹⁸ Not printed.

Bay concerning Proclaimed List matters in general, as well as with regard to several specific cases. The date set for the conference was February 18 at 5 p.m., and accordingly, Messrs. Lockett and Bay presented themselves at the specified hour. Señor Vicente Sánchez Gavito, Assistant Chief of the Diplomatic Section, was also present.

[Here follow three paragraphs dealing with specific cases.]

The three memoranda mentioned herein ¹⁹ related to reports that the officials of the Embassy, as well as some American consular officers in the Republic, were warning various firms and individuals not to purchase from firms intervened by the Mexican Government. Mr. Lockett observed that the Embassy as well as the consular officers were informing all persons that purely domestic transactions did not come within their consideration in connection with the Proclaimed List, except insofar as it was necessary to point out that persons or firms dealing with Proclaimed List firms and individuals and who might later seek importations from the United States were liable to find that the United States Government would deny export permits of material to such persons. In other words, Mr. Lockett made it clear that in the application of the Proclaimed List, officials of our Government were careful to avoid the appearance of interfering in domestic transactions; but in some transactions, persons trading with Proclaimed List firms might later wish to make importations from the United States. Persons or firms falling within this category, Mr. Lockett emphasized, might find difficulties in obtaining importations from the United States. This distinction, Mr. Lockett observed, might be the cause of the confusion in the reports reaching the Mexican authorities that our consular officers had warned against purely domestic transactions, which was not of course the desire of the Embassy.

Copies of the memorandum left with Messrs. Lockett and Bay are hereto attached.¹⁹

In conclusion, it is desired to point out that Señores Tello and Sánchez Gavito were pleased with the result of the conference and said they would await the fixing by Mr. Lockett of a future date for continuing the conversations.

Respectfully yours,

For the Chargé d'Affaires ad interim

CHARLES A. BAY
Commercial Attaché

¹⁹ Not printed.

740.00112A European War 1939/25971a

*The Assistant Secretary of State (Acheson) to the Chargé in Mexico
(Bursley)*

WASHINGTON, February 23, 1943.

MY DEAR MR. BURSLEY: A few days ago several officers of the Department and I had a lengthy discussion with Ambassador Messersmith concerning the progress being made by the Mexican Government in cleaning-up Proclaimed List firms in Mexico. We indicated to the Ambassador that we were disturbed at the apparent slowness on the part of the Mexican Government to take effective action and that we desired to know whether there was anything which the Department could do which might help the Mexicans to speed up their program. The Ambassador detailed to us the problems which the Mexicans had to face in carrying out such a program and the difficulties which the Embassy had encountered in attempting to obtain speedy action.

During the course of the conversation the Ambassador was asked whether there was a lack of desirable financial resources in Mexico to take over Proclaimed List firms which were essential to the Mexican economy and, if so, whether an offer of financial assistance from this Government might help to remedy this difficulty. We indicated to the Ambassador that this Government was prepared in appropriate cases to offer such assistance through the facilities of the Export-Import Bank in connection with the replacement programs instituted by the other American republics where the firms involved were essential to the local economies. The Ambassador replied that there was a lack of desirable financial resources to take over Proclaimed List firms essential to the Mexican economy and that this was a factor which hampered the Mexicans in pushing their program to a successful conclusion. He stated that he thought that an offer of financial assistance from us might be very helpful to the Embassy staff in its negotiations with the Mexican Government.

We told the Ambassador that a circular instruction on the role of United States financial assistance in programs for the cleaning-up of Proclaimed List firms essential to the economies of the other American republics was in the process of preparation and would be forwarded to the missions very shortly.²⁰ That instruction would give the Embassy the necessary information upon which to base discussions with the Mexican officials. The Ambassador indicated, however, that it might be very helpful if you and Mr. Lockett knew of the possibility of United States financial assistance as soon as possible. He believed that this would give you and Mr. Lockett an opportunity to think about the matter before the circular instruction arrived and possibly even discuss it in a general way and informally with the appropriate

²⁰ This instruction was not issued until June 18, 1943; not printed.

Mexican officials. In the meantime, the circular instruction of December 17, 1942 ²¹ (page 2) may also be of assistance.

We in the Department are most anxious to do everything possible to assist the Mexicans in carrying out an effective program of economic warfare. If United States financial assistance in connection with the taking over of Proclaimed List firms will be of help in this connection, we are prepared to do everything possible to see that such assistance is made available. I realize that it will be difficult for you to explore the possibilities involved in the availability of United States financial assistance without first having a blueprint of the manner in which such assistance would be made available. However, the information in this letter should give you something to start on and, as a matter of fact, it would be advisable for you not to go into details with the Mexicans or make any final commitment to them until we have first brought the possibility of such assistance to their attention and obtained their views.

After you have had an opportunity to consider the question raised by this letter, I shall be happy to try to give you any further information which you desire.

Sincerely yours,

DEAN ACHESON

812.659/38 : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, March 24, 1943—9 p. m.

424. Embassy's despatches no. 7700 of February 25, and no. 7803 of February 26.²² If Embassy can secure copies of Pope²³ and Garfis²⁴ reports on proposed nationalization of chemical and pharmaceutical companies, please expedite transmission to the Department.

In the meantime, you are requested to refrain from expressing approval of the American Cyanamid's proposal²⁵ either to American Cyanamid or to the Mexican Government. The proposal is now being studied by the Department, and the Department may wish to disapprove certain elements in the plan, or to recommend an alternative.

You are also requested to transmit to the Department any information you may have on whether the proposed plan contemplates that either Química Farmaceutica, S.A. or Ingenieros, S.A. will be granted a franchise empowering it to control all imports of chemicals, drugs, cosmetics, and allied products.

HULL

²¹ Not printed.

²² Neither printed.

²³ Col. Frederick Pope, representative of the American Cyanamid Company.

²⁴ Presumably Valentin Garfias, of the Cities Service Company.

²⁵ A proposal to operate the pharmaceutical and drug companies intervened by the Mexican Government because of alleged Axis associations.

740.00112A European War 1939/27952

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 8754

MÉXICO, D. F., March 27, 1943.

[Received April 1.]

SIR: I have the honor to refer to the Embassy's despatch No. 8146 of March 11, 1943,²⁶ concerning a conference at the Foreign Office on March 11, 1943, regarding Proclaimed List matters between officials of the Ministry of Foreign Relations and the Ambassador, who was accompanied by the Counselor of Embassy for Economic Affairs and the Commercial Attaché. In the third paragraph of this despatch, reference was made among other things to a brief discussion that took place on this occasion with regard to the desire of the Ambassador to have certain information concerning the status of German firms in which the Mexican Government has intervened. The Under Secretary, Señor Torres Bodet, gave a short exposition of the Mexican viewpoint and suggested that the questions be submitted in the form of a memorandum, in order that the Foreign Office could prepare a reply giving in detail the information he gave in substance. There is now transmitted herewith for the Department's information a copy of the Embassy's memorandum incorporating questions as submitted by the Embassy, and also a copy of the memorandum received in reply from the Foreign Office together with an English translation thereof.²⁷

The communication from the Foreign Office states in definite terms that the title of ownership of the intervened firms has been transferred to the Mexican Government, which has the right to administer or dispose of the properties subject to final disposition by the Congress at the termination of the state of war. During the period between intervention and final disposition of the properties by the Congress, the original owners have no title or any right to the properties, and neither the owners nor the employees removed from the companies have any connection with those companies. The compensation being paid to the original owners and employees removed from the companies is said to be a concession based upon humanitarian considerations and is being paid in monthly installments for subsistence purposes so long as the beneficiaries conduct themselves in a proper manner.

No reference has been made in the various informal conversations with the Foreign Office officials on this subject, to the status of trade marks, copyrights and patents belonging to the intervened firms. This subject will be taken up by the Embassy in order to obtain, if possible,

²⁶ Not printed.

²⁷ None printed.

the intentions of the Mexican Government with respect to this branch of property.

Respectfully yours,

For the Ambassador:

CHARLES A. BAY

Commercial Attaché

812.659/50

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 9463

MÉXICO, D. F., April 22, 1943.

[Received April 27.]

SIR: I have the honor to refer to Embassy airgrams No. 859 of April 17 and No. 874 of April 19, which were in answer to instructions contained in the Department's telegram No. 561 of April 14 [13], 1943.²⁸ The Department requested that the proposed contract between the Mexican Government and the American Cyanamid Company be submitted to it for consideration before final execution. In compliance therewith, the attachment hereto consists of the following:²⁹ (1) a letter from Col. Frederick Pope to the Economic Counselor, setting forth certain minor changes in the proposed contract; (2) an agreement between the Mexican Government and the American Cyanamid Company; (3) a contract of administration (Appendix B) between Química y Farmaceutica, S. A. de C. V., a corporation to be organized by the Mexican Government, and Técnicos Químicos, S. A., a corporation to be organized by the American Cyanamid Company; and (4) an agreement between Técnicos Químicos, S. A. and the American Cyanamid Company, relative to the right of Técnicos Químicos to use trade-marks, patents, etc. belonging to the American Cyanamid Company. These various contracts and agreements are set forth at length and in most instances are quite explicit of the purposes intended and, therefore, many of the details will not be mentioned in this transmitting despatch.

The proposed agreement between the Mexican Government and the American Cyanamid Company, designated as (2) above, is nothing other than an agreement between the two parties to make a contract after certain conditions have been fulfilled. The most important conditions on the part of the Mexican Government are that the Government will establish a company to be called Química y Farmaceutica, S. A. de C. V.; that the Government will expropriate all the properties of all the intervened companies named in the agreement, including patents, copyrights, trade-marks, advertisements, etc., and

²⁸ None printed.

²⁹ Documents not printed.

pass them to the governmental company; and the Government agrees that the governmental company, Química y Farmaceutica, will sign a contract of administration of the named intervened companies with the company, Técnicos Químicos, to be organized by the American Cyanamid Company. On its part, the American Cyanamid Company agrees to organize the administrative company, Técnicos Químicos, S. A., and through the latter organization to sign a contract of administration with Química y Farmaceutica.

There is one very important point in this agreement to make a contract. It stipulates that the Mexican Government will expropriate the intervened companies destined to form a part of the Government group to be administered by Técnicos Químicos. This feature came somewhat as a surprise, at [as] it is believed that the Government has the right under the Enemy Alien Property Law to transfer these properties as it sees fit, without resorting to expropriation. Col. Pope said that there seemed to be no objection on the part of the Mexican Government to expropriating the properties and that, in fact, this procedure would best meet the situation. If the properties are expropriated, it would mean that the original enemy owners could not anticipate the return of their properties after the war, but, they would hold the right to demand payment under the Expropriation Law. In the case of enemy owners, such funds paid to them would be blocked by the Bank of Mexico to await the decision of the Congress after the termination of the emergency. If the Mexican Government is willing to expropriate the properties in question, it would probably afford the greatest guarantee that the properties themselves would not be returned to the original owners.

The contract of administration (Appendix B) would be signed between the Government-controlled company, Química y Farmaceutica, S. A. de C. V., and Técnicos Químicos, S. A., a company to be organized by the American Cyanamid Company, to operate and administer the cited properties. As it is understood that the provisions of this contract are mutually acceptable to both parties, its importance arises not so much from its details as from the advisability or inadvisability of creating a huge pharmaceutical, chemical, dye, etc. industry in Mexico. It is well to bear in mind that the company to be organized by the Mexican Government, Química y Farmaceutica, will be owned and controlled in its majority by the Mexican Government. This company will be the sole owner of the properties to be passed to it for administration and operation by Técnicos Químicos. If these intervened companies were being bought and organized into a single group by a private corporation, there would be many reasons to look upon such action with disfavor, because it would constitute a state of private monopoly. It is not believed that the Mexican Government

would permit the creation of a private monopoly of this nature. Under the proposed procedure, the Mexican Government will be indirect owner of the properties and can exercise a control over the activities of *Técnicos Químicos* to such an extent as it may think advisable to prevent monopolistic tendencies to the injury of competitors. In this respect, reference is made to Article Ten of the agreement to be signed by the Mexican Government and the American Cyanamid Company, which states that it is "the desire of the parties to this agreement . . .³⁰ to encourage the free and unrestricted development of the Mexican chemical industry, and nothing contained in this contract, nor in Appendixes B and C hereof, is to be construed as intending to prohibit or restrain any other company from engaging in similar businesses in Mexico, or manufacturing, importing, selling or exporting chemical products of any kind."

The administrative contract between *Química y Farmaceutica* and *Técnicos Químicos* will expire on December 31, 1949. It contains a provision for an additional period of three years, provided, notice of discontinuance is not given by either party six months prior to the expiration date. This means that during the six-year period *Técnicos Químicos* will organize the cited industries into one group and it is believed that under the management of Cyanamid a very formidable pharmaceutical, chemical, dye, paint, etc. industry will result. This industry will undoubtedly manufacture many products which originally came from Germany and other countries of Europe and, in addition, a number of products which were imported from the United States. At the end of six years, the Mexican Government can discharge the American Cyanamid Company and assume the administration of the organization developed by the latter. A period of six years into the future is too long to hazard a prediction, but, it is probably safe to say that such a huge and intricate industry would continue to need the management and consultation of such a company as American Cyanamid. Nevertheless, there is always the risk that after the six-year period of administration by Cyanamid, the Germans might gradually work into the organization, or, that the German pharmaceutical, chemical and dye industry, re-established after the war, might secure the predominance of sales to the Government-owned industry. In spite of this possibility, however, the re-entrance of Germans into their formerly-owned companies will be much greater if some such plan as that suggested by Col. Pope is not put into operation.

Should Col. Pope's plan be rejected and the intervened companies remain under intervention as at present until the end of the emergency, it is the general belief that the former enemy owners will be

³⁰ Omission indicated in the original despatch.

able to bring sufficient influence to bear in various ways to regain their properties. This is one of the things which we are trying to avoid. Should the Mexican Government retain these companies under interventorship, there arises another certainty which will develop as soon as Germany can begin shipping chemical, pharmaceuticals and dyestuffs. When that time arrives, the intervened companies will surely turn to Germany for a large percentage of their requirements. On the contrary, if the intervened companies are under the administration of the American Cyanamid Company, as provided for in the contract, purchases from Germany can be held to a minimum and, during the six-year period, American and Mexican products can be so well entrenched in the Mexican market that I. G. Farben will find it difficult to re-establish its products.

The contract provides that all trade-marks, patents, advertisements, etc. belonging to or used by the intervened company will become the property of the Government-owned company, Química y Farmacéutica, S. A. de C. V., and that such of them as may be desired by Técnicos Químicos would be for the exclusive use of the latter. If Técnicos Químicos does not wish to use any of them, they will probably lie idle for at least the life of the contract. Those selected by Técnicos Químicos would become known as Mexican instead of German during the six-year period and, therefore, it is reasonable to assume that the Mexican Government would not be willing to release them.

Col. Pope was asked about his intentions with respect to selling and distributing products of other American companies through the wholesale and retail outlets of the new organization. He said that he had every intention of giving the public what it wanted and, consequently, products of other manufacturers would have full access to the distribution made by Técnicos Químicos. It seems to be quite certain that the Government will insist that Técnicos Químicos give private manufacturers an equal opportunity to distribute their merchandise through the new company.

It is recognized that the gradual building up of a pharmaceutical, chemical and dye industry in Mexico will affect imports from the United States along those lines, but, the corollary is that the demand for other products will increase. If Mexico is not permitted to further industrialize, then we can look forward again to a post-war period in which the country will be drained of its financial resources to pay for an excess of imports of consumer goods. Industrialization up to a certain point will help Mexico solve many of its problems and afford us a prosperous instead of a bankrupt neighbor.

The viewpoints stated in this despatch are given in the hope that they will be of some assistance in aiding the Department to reach a decision in the case of the contract between American Cyanamid and

the Mexican Government. Since the Mexican Government is a party to the contract and agrees to the establishment of the new industry, it is believed that the probable results will be worth the trial. The Economic Counselor recalls that during the early months succeeding the institution of the Proclaimed List, he made every effort to induce our independent drug manufacturers to jointly organize a distributing company in Mexico. There was much talking about the matter, but they could not get together. As a result, some of our pharmaceutical companies made distributing arrangements with Mexican companies already in existence which are much weaker than such companies as Beick Felix and Carlos Stein. Several of the American companies, particularly, Sydney Ross and Abbott Laboratories handled their own distribution. The point is that our distributing talents are dispersed and are not unified and, therefore, should the Germans re-enter Mexico and regain their properties, we would be once more confronted with unified distribution, which is difficult to meet through individual sales efforts.

The Department is requested to transmit as soon as possible the copy of the enclosures marked "Copy of Original" to Mr. William Brown Bell, President, American Cyanamid Company, 30 Rockefeller Plaza, New York City, New York.

Respectfully yours,

For the Ambassador:

THOMAS H. LOCKETT

Counselor of Embassy for Economic Affairs

740.00112A European War 1939/30059

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 9694

MÉXICO, D. F., April 29, 1943.

[Received May 6.]

SIR: I have the honor to inform the Department that the informal conferences on Proclaimed List matters between the Foreign Office and the Embassy are taking place weekly and that the progress being made is beyond what could have been anticipated. At these conferences, Ingeniero Topete Bordes is the representative from the Junta Administrativa and his honesty of purpose, frankness and profound knowledge of the action taken by the Junta has convinced the Embassy representatives of the earnestness and the thoroughness with which the Junta Administrativa has cleaned up the intervened companies since the Ambassador presented his informal memorandum to the Foreign Office on August 10, 1942. The Ambassador's memorandum was forwarded to the Department in despatch No. 3415 of August 19, 1942.³¹ This memorandum created the three lists which

³¹ Not printed.

constituted the three categories for all names upon the Proclaimed List. List No. 1 was composed of those companies and individuals, of prime importance to Mexico's national economy, which should be intervened by the Mexican Government; List No. II comprised the names of Mexicans and others of little economic consequence which could be deleted as soon as List No. I was cleaned up to the satisfaction of our Government; and List No. III contained names of Japanese, Italians and Germans which should remain upon the Proclaimed List.

At the time the Ambassador prepared his informal memorandum to the Foreign Office, the Mexican Government was demanding that our Government take some immediate action which would free the intervened companies from the Proclaimed List, because the latter were under the operation and ownership of the Mexican Government. The expressed attitude of the Mexican Government at that time was that the American Government should not retain the intervened firms on the Proclaimed List because they actually formed or were a part of the Mexican Government. The Mexican Government said that, since these intervened firms were a part of the Mexican Government, the American Government had no right to say that internal transactions with the intervened firms would be a cause for listing upon the Proclaimed List. The stand of the Mexican Government was firm and, if maintained, portended the complete breakdown of the effects of the Proclaimed List within Mexico, with the exception of the control of exports from the United States by our Government. The demand of the Mexican Government for a delisting of intervened firms was so firm that it might have become the basis of a serious diplomatic controversy between the two Governments.

In such circumstances and conditions, the Ambassador took a very prudent, wise and courageous step when he proposed the global plan for a settlement of Proclaimed List matters in Mexico and presented it to the Foreign Minister, with the result that it saved our Government from an interchange of notes which might have proved extremely serious in our relations. The importance of bringing to a satisfactory conclusion as soon as possible the global settlement envisaged by the Ambassador and presented to the Foreign Office in his memorandum of August 10, 1942, is therefore apparent and cannot be over-emphasized. A settlement of this nature is so vital and important that it would be a serious mistake to let it be deterred or interfered with by a mass of minor considerations. The Mexican Government accepted the plan presented by the Ambassador in the good faith in which it was proposed and the minute it realizes that we are hampering or being unwilling to fulfill our end of the bargain, then, the Proclaimed List will return to the status in which it existed at the time the Ambassador

presented his original memorandum of August 10, 1942. If this is permitted to take place, it would doubtless be very unfortunate for our relationships and greatly interfere with the solution of many other major problems which are now under consideration. This we cannot afford to permit, therefore the Embassy desires to urge the Department to give its prompt and careful consideration to such recommendations as the Embassy is making for deletions from the Proclaimed List after consultation with the Mexican Government.

The Foreign Office has demonstrated to the satisfaction of the Embassy that the intervened companies are the property of the Mexican Government and, in such instances as the Embassy has reported upon, it has satisfactorily cleaned up the intervened companies in accordance with the conditions outlined in the Ambassador's memorandum. The informal conversations at the Foreign Office have not only surprised, but, in many cases, amazed the representatives of the Embassy with respect to the thoroughness with which the Junta Administrativa has fulfilled its undertaking that the intervened companies be thoroughly purged of undesirables so that they could be removed from the Proclaimed List. Not only has the Junta Administrativa intervened in those companies suggested by the Embassy, but, it went much further and intervened in additional companies which, after investigation, it found had Axis connections. A further indication of the thoroughness of the purge is found in the fact that, upon its own initiative, the Junta intervened the properties and other assets of original owners and employees of intervened firms. In addition, it has been established to the satisfaction of the Embassy that accounts of intervened firms and individuals which have been blocked in the Bank of Mexico are effectively frozen and an extensive vigilance is exercised by the Junta over the needs and mode of living of blocked persons. These are facts which should not be overlooked in determining whether or not the intervened firms recommended for deletion by the Embassy should be taken from the Proclaimed List. In those cases in which deletion is recommended to the Department, the Embassy is satisfied that the purposes and intent of the Proclaimed List have been completely fulfilled and that delay in removing such names from the List will serve no other purpose than to thwart the global settlement and bring ill will into our relationships.

Embassy despatch No. 8754 of March 27, 1943, informed the Department that the Mexican Government considers that the ownership and title to property of the intervened companies rest in the Mexican Government and that the former owners of the properties have no right therein. Embassy despatch No. 9464 of April 22, 1943,³² gave a very detailed description of operations and procedures of the Junta Ad-

³² Not printed.

ministrativa, as well as the system of management and inspection installed in each intervened company. The speeding up of action on the part of the Junta Administrativa in preparing the intervened companies for deletion was the result of the global plan presented in the Ambassador's memorandum of August 10, 1942. As the Mexican Government is fulfilling its part of the agreement in reference to the intervened companies, the Department is urged to bring to the attention of the Inter-Departmental Committee the character of the Ambassador's proposal to the Foreign Office as set forth in his memorandum of August 10, 1942, which was accepted in good faith by the Mexican Government, and the necessity for prompt consideration and action on such recommendations as the Embassy submits in accordance with that proposal.

As of April 29, the Embassy has recommended the deletion of seventeen intervened firms. These recommendations were contained in despatches Nos. 9464 and 9600 of April 22 and April 26 respectively,³³ and other despatches now under preparation for immediate forwarding to the Department. It is extremely important that the deletions mentioned in these despatches be cleared in time for publication on May 10. Each one of these recommendations has been studied and compiled in detail and it is believed that the Mexican Government should be encouraged by the appearance of the deletions. The companies in question have been cleaned up to the satisfaction of the Embassy and there remains no doubt but that the purposes of the Proclaimed List have been fulfilled.

Relative to List II, or, the list which contains names which the Embassy feels can be safely deleted as the intervened firms are removed, it is felt that no useful purpose can be served in quibbling with the Mexican Government concerning their deletion. When the intervened companies are deleted from the Proclaimed List, it will mean that the most important elements have been removed. The large and dangerous Axis companies and organizations will have been placed under the ownership and operation of the Mexican Government. A very large percentage of the names upon List No. II are there because they dealt with or acted on behalf of the intervened companies. Most of the persons on List No. II are Mexicans, and, legally speaking, they had a legal right to perform any business transactions within the Republic of Mexico which are not prohibited by Mexican law. This means that they had a legal right from the Mexican viewpoint to negotiate with a firm upon the Proclaimed List. Most of the persons on List No. II were not malicious in intent nor was there any indication that they were pro-Axis or anti-American. They were simply Mexican citizens conducting business within

³³ Neither printed.

the Republic of Mexico. With the disappearance of the intervened companies from the Proclaimed List, it is believed that the names on List No. II can be safely deleted from the Proclaimed List and that was the understanding with the Mexican Government. Any additional information which the Department might desire concerning any names upon List No. II will be forwarded on request, but, the Department is urged, again, to use its best efforts to convince the Inter-Departmental Committee that List No. II should be removed from the Proclaimed List.

It will require approximately three weeks before our informal discussions at the Foreign Office will bring to a conclusion the study of all of the intervened firms. It is hoped that our recommendations on all intervened firms will be forwarded to the Department in time for publication on June 10. In the meantime, discussions are also under way concerning additions to the Proclaimed List. It is now necessary for us to consult not only with our British colleague, but with the Foreign Office before any recommendations for additions can be made. The Embassy believes that no additions to the Proclaimed List should be published on May 10. Beginning with June 10, the remaining twenty-nine additions agreed upon at the time Mr. Russell³⁴ was here, plus additional approvals for addition since that time, can safely be published in reasonable installments until this phase of the matter might be fully taken care of. It is very important that in the publication of May 10 very few, if any, additions appear.

The importance of a global settlement of Proclaimed List problems in Mexico, as set forth by the Ambassador in his despatch No. 3415 of August 19, 1942, is so great that the Embassy has been very explicit in this despatch in making its recommendations to the Department as to what procedure it believes would best serve the interests of the two Governments involved. The Department can have the fullest assurance that every detail of the discussions between the Foreign Office and the Embassy, as well as each individual recommendation, is receiving the careful and weighed consideration of the Ambassador and his staff.

Respectfully yours,

For the Ambassador:

THOMAS H. LOCKETT

Counselor of Embassy for Economic Affairs

³⁴ Francis H. Russell, Assistant Chief of the Division of World Trade Intelligence.

812.659/55 : Airgram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MÉXICO, D. F., May 8, 1943—11 a. m.

[Received May 10—2 p. m.]

A-1075. The receipt is acknowledged of the Department's airgram A-1590 of April 26, 11:50 a. m. referring to the Embassy's despatch No. 9054 of April 9, 1943,³⁵ and stating that certain serious questions have been raised with respect to the plan for management of the proposed Mexican national chemical industry by the American Cyanamid Company.

Prior to the receipt of the Department's airgram under acknowledgement, the Embassy forwarded its despatch No. 9463 of April 22, 1943, which gives in detail the Embassy's views on many of the questions raised in the Department's communication, and which transmitted a copy of an agreement between the Mexican Government and the American Cyanamid Company to enter into a contract after certain conditions have been fulfilled. The contract embodies, therefore, in a definite form the results of the negotiations that have been carried on thus far by the American firm and the Mexican Government.

With respect to the Department's request for information on those points not already covered in the Embassy's despatch just mentioned, it is the Embassy's opinion, based on conversations with the representatives of the American Cyanamid Company that it is the intention of the operating company in the proposed plan to supply Mexican requirements of drugs and chemicals not only by importations from abroad, but also by manufacturing on a substantial scale such products as are in demand in the Mexican market. The Mexican Government, it is understood, will provide the necessary capital for the construction of any manufacturing facilities that are deemed desirable. There is nothing definite, so far as the Embassy is aware, with regard to plans for plant extension but additional plant facilities are provided for in the program. They will be subject, of course, to the limitations of war conditions.

In regard to the Department's suggestion that the Embassy make inquiry whether the Mexican Government would be receptive to an alternative proposal, the Embassy is of the opinion that it would be highly undesirable to approach the Mexican Government at this time, as the Department suggests, since the negotiations have hitherto been carried on between the Mexican Government and the American firm on a strictly private basis. If the Embassy were to intervene to the extent of inquiring whether or not the Mexican Government would be receptive to an alternative proposal, it is felt that this action would

³⁵ Neither printed.

be interpreted by the Mexican Government as indicating that the American Government was displeased or dissatisfied with the agreements that have so far been reached with the American firm and thus would definitely suspend all further negotiations.

Concerning the proposal, mentioned in the first paragraph of the Department's communication, that the American Government undertake to furnish the Mexican Government with such technical assistance as it will need for the consummation of plans for the development of a national chemical industry, the Embassy is of the opinion that the desires of the Mexican Government to establish a chemical industry, using as a basis the German firms in which it has intervened, could best be realized with the assistance of private American concerns qualified to provide technical assistance in all its forms. In an industry comprising many technical ramifications, this assistance would be of vital importance and an absolute necessity in the case of operation directly or indirectly by the Government. The Embassy has felt, therefore, that plans for the operation of such an industry in Mexico could best be carried on by private enterprise in cooperation with the Mexican Government, rather than on a basis of Government to Government.

The Embassy has noted with considerable interest the contents of paragraph 6 of the Department's airgram relating to trade marks and patents. As pointed out in the Embassy's despatch, it is the intention of the Mexican Government to turn over its proprietary interest in these trade marks and patents to the Government-owned company to be formed. It has also been stated to officers of the Embassy, who are currently carrying on conferences with officials of the Foreign Office on Proclaimed List matters, that the Mexican Government had taken over with the seized enemy properties those trade marks and patents belonging to the intervened firms and that a study was being made of the most desirable procedure to follow with respect to patents and trademarks which are owned by German interests in Germany and used on a royalty basis by the intervened firms. Article 3 of the contract, transmitted to the Department with the Embassy's despatch No. 9463 of April 22, 1943, specifies among other things that all patents and copyrights are to be transferred to the Government-owned corporation along with other assets and properties of the intervened firms.

It was the opinion of the Embassy officials that the seizure by the Mexican Government of German trade marks and patents would constitute another bastion in the ownership of the properties seized by the Mexican Government and would make more unlikely the return of the seized properties to the original owners after the war. As expressed informally, Mexican officials have said, with respect

to German trade marks and patents, "Why destroy them, why not use them?"

The Embassy will await a further instruction from the Department after it has taken into consideration the Embassy's comment as submitted in despatch No. 9463 of April 22, 1943.

MESSERSMITH

812.659/50 : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, May 10, 1943—10 a. m.

744. Your despatch 9463, April 22, 1943 and Department's A-1590, April 26, 1943.³⁶

Department has discussed with other interested Government agencies and American Cyanamid the proposal and contracts. Your opinion is requested on the merits of the following points:

1. It is asserted by Cyanamid that officials of the Mexican Government resent the supposed delay occasioned by "interference" of the American Government in matters which are considered primarily to affect Mexican interests. It has been suggested that the Mexicans believe that the Department is primarily interested in preventing a violation of the Mexican monopoly laws. Please indicate whether this is the Mexican attitude, and, if so, on what this attitude is based. You may deem it appropriate to indicate that we will not attempt either to interpret or enforce Mexican monopoly laws.

2. It has been suggested by Cyanamid that the Mexicans desire immediate action, and that they will either sign the proposed contracts within the next week or 10 days or abandon entirely their nationalization program for the drug and chemical industry. Please indicate specifically your opinion of the necessary time schedule on the American Cyanamid proposal and whether the Mexicans are likely to abandon all attempts at nationalization should the proposal either be turned down or be delayed more than a week or two. Colonel Pope has stated that he was requested to return for final signing of papers on May 15, 1943.

3. The Alien Property Custodian ³⁷ has offered to assist in a developmental program for the Mexican drug and chemical industry. In the absence of prior consultation with the Mexicans, the Custodian's program is necessarily in a developmental stage. The Custodian believes, however, that a plan might be worked out involving participation not only by companies under his control but also by other American drug and chemical companies, whose aid might be valuable. Should the

³⁶ Latter not printed.

³⁷ Leo T. Crowley.

Mexican Government wish to avail itself of the services of the Custodian, the Custodian would be willing to send representatives to Mexico. Unless you perceive some objection, this offer on the part of the Custodian should be transmitted to the Mexicans. It should be clearly indicated that the Department is interested only in extending all possible cooperation to the Mexican Government, for the purpose of procuring the best possible program.

It should be indicated that transmittal of this offer is not to be construed as disapproval of the Cyanamid plans, and will not delay consideration of them here. Please indicate the reaction of the Mexican Government to the Custodian's proposal.

A prompt telegraphic reply is requested.

HULL

812.659/66

The Ambassador in Mexico (Messersmith) to the Assistant Secretary of State (Acheson)

México, D. F., May 12, 1943.

DEAR DEAN: As you know, the American Cyanamid people have been down here talking with the Mexican Government for some months about an arrangement through which the American Cyanamid would take over certain operating work for the Mexican Government in connection with some of the chemical and drug firms taken over by the Mexican Government from the German firms under our proclaimed list practice and that of the Mexicans. I will not go into detail with regard to these arrangements because our despatches and letters to the Department cover the situation from here and I know that the Department has been giving careful consideration to this matter as indicated by its telegrams to us.

The arrangements have reached the point where the American Cyanamid and the Mexican Government are on the point of signing a contract but the American Cyanamid does not feel that it can do so if our Government raises any objection. We have now a telegram from the Department³⁸ to the effect that the alien property custodian would be willing to enter into certain conversations with the Mexican authorities to the end that he and we would be willing to lend our collaboration. I am authorized by the telegram to make this suggestion to the Mexican Government if I see fit. Bursley, Lockett and I have gone into this matter very carefully from time to time and again on the basis of the last telegram which we had yesterday. We are all of the opinion very definitely that it would be inadvisable to take up this matter with the Mexican Government in the

³⁸ Presumably No. 744, *supra*.

form suggested in the telegram. It would be equivalent in one way or another, directly or indirectly, in [to] our going into business with the Mexicans in this drug and chemical field and I know that the Mexicans would not wish this and I feel sure that they would resent the suggestion. Although they have not said anything to us directly, we know indirectly that they are not happy or at least that the American Cyanamid has had to submit all of its arrangements to our Government. There are those in the Mexican Government who believe that this is equivalent to our interfering in an internal Mexican affair. We have made it clear to the Mexican authorities and I am sure the responsible ones understand that our only interest was from the point of view of the American Cyanamid Company which could not enter into any arrangement as an American company which would be found objectionable to our Government as it would cause difficulties for the American Cyanamid at home. They thoroughly understand this now.

So far as we can see there is nothing monopolistic involved in the arrangements which the American Cyanamid is entering into with the Mexican authorities. I think from our point of view it is a very desirable arrangement for it is the only sure and definite way that I see that we will definitely eliminate these German firms from the drug and chemical business in Mexico in which they are so strong. The Mexican Government of course during the war has undertaken to run and is operating these companies independently of the former German owners but these firms are difficult to run and require technical and administrative personnel which it is difficult to furnish from here alone. There is a possibility that if the Mexicans run them on their own that at the end of the war in some way or other these firms may get back into the hands of the Germans whether the Mexican Government would push it or not.

If the American Cyanamid comes in under the contract, of which the Department has a copy,³⁹ they will be able to see that these firms run successfully. This will definitely assure the elimination of the Germans from this important drug and chemical field. It is therefore 100% to our advantage.

I can see that there are certain American drug firms at home which may be bringing pressures on the Department because they fear monopolistic practices, etc. For some of these drug firms, which I believe are bringing this pressure, I have no sympathy whatever for they were willing to play with the Germans up until the last minute and probably would be willing to play with them again if they had a chance. I can not see myself anything dangerous to our own drug firms in the proposed arrangement.

³⁹ Not printed.

One thing is sure and that is if we try to open this question with the Mexicans of the alien property custodian entering into the picture, the Mexicans will resent it and we will not be able to make any progress. If we press an arrangement such as the one the alien property custodian has in mind, the arrangement with the American Cyanamid will break down and we will have confusion and the probability that we will only be creating a problem for ourselves in the drug and chemical field at the end of the war.

I am sending you herewith a copy of a despatch with which is transmitted a memorandum by Lockett,⁴⁰ Economic Counselor, commenting on the Department's recent telegram and with which memorandum Bursley and I are in complete accord. I would strongly recommend that as this contract between the American Cyanamid and the Mexican authorities is ready for signature that you inform us or the American Cyanamid that our Government has no objection to the American Cyanamid entering into this contract. I think this should be done without delay as any delay will not do us any good here and will, I believe, be disadvantageous to our interest.

I have taken the liberty of writing you directly about this as I think a decision should be made without delay as delays can only be injurious to us. If we do not approve this project, the Mexicans will unquestionably consider us as having sabotaged it when they entered into it in all good faith and have tried to act in good faith and I believe have done so and when they have been definitely under the impression that our Government saw no reason why they should not consider such an arrangement with the American Cyanamid.

With all good wishes [etc.]

G. S. MESSERSMITH

812.659/60

Memorandum by the Adviser on Political Relations (Duggan) ⁴¹

[WASHINGTON,] May 22, 1943.

After a very careful rereading of the file with regard to the proposed American Cyanamid deal with Mexico I feel constrained to express very great doubt as to the desirability of giving this project this Government's blessing until other alternatives have been more thoroughly explored.

I do not believe that any careful study of this project can fail but reach the conclusion that it embodies strong monopolistic implications. Whatever may be the paper guarantees, the setup would be such that the American Cyanamid Company would be in a posi-

⁴⁰ Neither printed.

⁴¹ Addressed to the Under Secretary of State (Welles) and the Assistant Secretary of State (Acheson).

tion effectively to prevent other United States drug and chemical concerns from selling their products on any important scale in the Mexican market.

I am unwilling to admit that there is no other alternative than this arrangement. In addition, I do not think that delay will really remove the possibility of closing either the pending deal or a deal based upon the same setup provided that after further exploration this seems to be the only feasible procedure to take. It seems possible that American Cyanamid might become annoyed and withdraw, but the deal is so favorable to the United States group involved that I feel confident others would come forward and gladly take the place of the American Cyanamid Company.

As a preliminary step I recommend that the Department assemble a meeting of the United States Government agencies involved and request their assistance in canvassing intensively other possibilities of assistance to Mexico in this matter. Once these possibilities have been developed in outline stage then the authorities of the Mexican Government could be informed of them and asked whether they would like to explore them with us in a Government-to-Government discussion.

In résumé, I do not believe that the Department should permit itself to be high-pressured into approving a project on the basis that it is "the only one" when the situation is not one that requires precipitate action. I think that the long-run disadvantages outweigh the immediate advantages, particularly when the immediate needs are not such as to require decision within a fortnight or a month. I believe that the Department should have the benefit of a more careful exploration before it decides on any proposal.

LAURENCE DUGGAN

812.659/66

*Memorandum by the Acting Chief of the Foreign Funds Control
Division (Meltzer)*

[WASHINGTON,] May 24, 1943.

Mr. Duggan's memorandum of May 22 refers to the monopolistic implications of the Cyanamid deal and suggests the desirability of exploring other alternatives with the other interested agencies. In this connection, it should be observed that for several months we have been in close touch with the Department of Justice and BEW, with a view to developing a preferable and workable alternative. The Department of Justice at one time suggested a Government corporation, but Assistant Attorney General Cox in a meeting with Mr. Acheson indicated that because of the coolness of BEW, which would

have to direct the formation of the corporation, he was doubtful that the corporation could be organized in time to deal with the Mexican situation. For this reason and other reasons which I spelled out in my memorandum of April 2⁴² I do not believe that the use of any Government corporation not yet organized would be a feasible alternative to the Cyanamid proposal. The only other "alternative" is the nebulous suggestion of the APC,⁴³ which Mr. Messersmith declined to convey to the Mexicans. I do not believe, for the reasons given below, that we should risk effective action against the Axis properties in Mexico in order to press the APC's proposal—or more realistically, his desire to begin negotiating an arrangement with the Mexicans.

Mr. Duggan speaks with great generality about alternatives, presumably alternatives without monopolistic implications. The experience of the last three months has revealed the difficulty of formulating any practicable alternative, monopolistic or not. Moreover, analysis of the Mexican situation reveals the difficulties in the way of formulating non-monopolistic alternatives, or, more accurately, alternatives which will promote a free competitive market. Nationalization of a large segment of an industry and its operation under Government sponsorship necessarily involves a dominant position for the nationalized company and the elimination of some competition. The nationalized company will have a controlling position in distribution in Mexico. This will obtain irrespective of whether Cyanamid manages the nationalized properties. However, this distribution "monopoly" is essentially Mexico's business. Our concern may properly be focussed on the desirability of giving Cyanamid a controlling position on the supply side. However, given a concentrated distribution system and the desire of the Mexicans for management by a United States company or companies which manufacture chemicals, it is difficult to formulate proposals for management of the Mexican company by private United States companies which make a significant difference in terms of competition. Thus let us assume that four American companies agreed to assume the management of the nationalized companies. They probably would agree to a division of fields on the supply side and we would have more units in the management corporation but not significantly more competition. Indeed the substitution of three or four large chemical concerns for Cyanamid might well create greater difficulties for *outsiders*. For example, let us assume that the management group was to consist of Dupont, Allied, General Aniline and Cyanamid. In that case, non-participating firms seeking access to the Mexican market might be faced with the added difficulties of bucking a combination of four Cyanamids.

⁴² Not found in Department files.

⁴³ Alien Property Custodian.

Moreover, the multiplication of American companies participating in the management of the Mexican companies would necessarily involve a dilution of responsibility for management. The Mexicans may with justification prefer the concentration of responsibility in a single company to a business analogue of an interdepartmental committee.

It should be added that an "alternative" to be acceptable to the Mexicans who have been negotiating for eight months must be something more concrete than a general exhortation against monopoly.

Mr. Duggan concludes that American Cyanamid would be in a position effectively to prevent other drug and chemical concerns from selling their products on any important scale in Mexico. I am afraid that I cannot accept this *ipse dixit*. Many of the products which will be required by Mexico, Cyanamid does not produce and must acquire through American firms. It is true that many United States companies, if they sell, will have to sell through the nationalized distribution company. But this would be true irrespective of whether or not Cyanamid participated. It is also true that Cyanamid may use its dominant position in the distribution plan to exact concessions in other markets from the American suppliers. I believe that in this field we can expect some help from the Antitrust Division. Moreover, I must express some fear concerning the Department's disapproval of an arrangement that *per se* violates no law—on the basis of a prejudgment that the anti-monopoly laws will be violated.

The gains from further delays and further search for alternatives are extremely conjectural. The risks of such a course are substantial.

(1) The disapproval of the Cyanamid proposal and further delays may result in the Mexicans taking no effective action against the German properties. These properties might continue under the dubious supervision of the Mexican interventors or be sold to "Mexican" cloaks for the Axis.

(2) Unless effective action against the Axis properties is taken, and unless American management assists, the properties will probably be badly run and the return of I. G. Farben to domination of the Mexican chemical industry will be more likely.

(3) The Mexicans may view our disapproval as an expression of an unwillingness to assist in the establishment of a local Mexican industry, thereby further disturbing relations which at present are, I believe, none too good.

(4) I take it that any approach to the Mexican Government would necessarily indicate that we could present alternatives which would be superior means of achieving the Mexican objectives. In view of the inchoate nature of these alternatives I believe that such representations would be dangerous if not irresponsible. They would involve implied governmental commitments which we might not be able to redeem. They would involve a continuing responsibility for the development of the Mexican chemical industry which I do not

believe we should assume. I am concerned that our advice to the Mexicans may outdistance our wisdom.

I do not believe that the Department is being high-pressured into action in this case. The case has been carefully considered here. It has been carefully considered by other agencies. If there are realistic alternatives, three months of thought should have produced them. I believe that we should meet with the other agencies and see whether there are alternatives which we have overlooked. Absent such alternatives, I believe that we will gain nothing by further delay.

Finally, it is not proposed to give any affirmative blessing to the deal but merely to avoid any objection and to couple this with a statement to the Mexicans that we assume no responsibility for effective performance by Cyanamid.

812.659/67a

Memorandum by the Secretary of State to President Roosevelt

[WASHINGTON,] June 10, 1943.

The proposed contract between the Mexican Government and the American Cyanamid Company was brought to your attention by Mr. Biddle's memorandum of May 26, 1943.⁴⁴ The matter, which for some time has been carefully studied by the interested agencies, was fully discussed on June 3, 1943 during a meeting of the full Board of Economic Warfare, attended by Mr. Crowley. The interested agencies have agreed to present the following recommendations to you: Despite objections to the Cyanamid arrangements, which have troubled all of us, the Mexican Government should be informed that we will not place any obstacle in the way of the Cyanamid deal. At the same time, Mr. Crowley's offer should be presented to the Mexicans.

The reasons for this decision are largely political in character. We are concerned that disapproval of the Cyanamid deal would be interpreted by the Mexicans as gringo interference and would provoke charges of non-performance of our promises to assist in Mexico's replacement problems. But the strongest reason is the fear, shared by all of us, that disapproval—after protracted negotiations between Cyanamid and the Mexicans—will lead to the abandonment of effective Mexican action with respect to Axis businesses. This development would not only jeopardize important war objectives but would also facilitate the post-war re-emergence of German economic domination in Mexico.

⁴⁴Not printed; it recommended a plan of the Alien Property Custodian as a guarantee against monopoly and against the return of German control (812-659/63).

It does not seem likely that the Cyanamid arrangements will set a pattern for the other American republics. In those countries in which replacement plans are developing—for example, Brazil and Colombia—the trend has been toward individual reorganizations and not toward big combinations. These other American republics are afraid of concentrated economic power and do not have the Mexican tendency toward large, state-controlled enterprises.

Since Mr. Crowley's companies can be instruments of governmental policies, it seems desirable to bring his offer formally to the attention of the Mexicans. As indicated in the instruction to Ambassador Messersmith, Mr. Crowley's proposal seems preferable to Cyanamid's since his companies can wage economic warfare without a private company's concern for its stockholders' interests. However, in order to avoid suggesting Mr. Crowley's proposal in a manner which might be considered coercive by the Mexicans, it appears best to couple the counter-proposal with a statement of "no objection" to the Mexican-Cyanamid plans.

I am attaching a proposed instruction to Ambassador Messersmith and note for transmittal to the Mexicans,⁴⁵ which follow the recommendations made by the full Board of Economic Warfare and which have been approved by the Vice President,⁴⁶ the Attorney General, and the Alien Property Custodian. The note disclaims responsibility for satisfactory performance by Cyanamid and points specifically to the antimonopoly clause in the proposed contract. The note has been drafted with a view to meeting any domestic criticism which may develop and to giving us a basis for protesting to the Mexicans should the operations under the Cyanamid contract actually involve restraints on trade.

The attitude of the Mexican Government makes a prompt decision necessary. Mr. Wayne Taylor,⁴⁷ who is now in Mexico, is also extremely anxious for a prompt decision in order to avoid embarrassing his mission.

CORDELL HULL

812.659/70

Memorandum of Telephone Conversation, by the Acting Chief of the Foreign Funds Control Division (Meltzer)

[WASHINGTON,] June 17, 1943.

Mr. Hammett⁴⁸ called to inform the Department that the American Cyanamid Company had decided to withdraw from the proposed con-

⁴⁵ Note not printed. For instruction, see No. 3574, June 24, p. 508.

⁴⁶ Henry A. Wallace, also Chairman of the Board of Economic Warfare.

⁴⁷ Under Secretary of Commerce.

⁴⁸ J. C. Hammett, vice president of the American Cyanamid Company.

tract with the Mexican Government under which Cyanamid would take over the management of the vested drug and chemical companies in Mexico. He stated that this decision was the result of newspaper articles indicating that the various agencies in Washington were not in agreement that the deal should be approved. He mentioned in particular a news item in the *New York Herald Tribune* which stated that President Roosevelt had been asked to arbitrate a dispute between the State Department on the one side and the Board of Economic Warfare and the Alien Property Custodian on the other as to whether the vested companies should be taken over and operated by American Cyanamid as a practical monopoly.

He continued that the company didn't have confidence in undertaking the management contract under the circumstances, although it felt that the opposition in certain Government agencies was not a reflection on the company but rather that there was a conflict of opinion as to the desirability of the whole project. As an example he referred to the conflict on the question of trade-marks, saying that it seemed obvious to Cyanamid that the trade-marks should be utilized from the viewpoint of the business in Mexico. He added, however, that the company had been advised that objection had been made to one of the trade-marks being purchased by an American company and that that company had had to spend a great deal of money to establish a new mark.

He stated that the company felt that going forward with the deal would be bad both for the Cyanamid company and for the Mexicans.

Mr. Meltzer replied that there were several things in Mr. Hammett's statement that he would like to comment on. The first was the trade-mark policy which is one of the more complex problems. He indicated that the only thing that has been agreed on in Washington so far is that, although certain general objectives could be established, these would have to be adjusted so as to meet the requirements of specific cases; that it was recognized here that the attitude of the local Government might in many cases prevent withdrawal of the marks. He added that he didn't know who had pretended to speak for the Government on the trade-mark policy or what specific company Cyanamid had in mind. He pointed out that there were several companies which have been subject to certain disabilities in connection with consent decrees entered into at a time when the picture in Latin America was quite different from what it is now.

Mr. Meltzer stated that all he could say about the general situation was that he would take up the matter of Cyanamid's withdrawal with the other interested people.

He inquired whether Cyanamid was planning to get in touch with the Mexicans. Mr. Hammett replied that Cyanamid felt that it must

inform the Mexican Government. He added that he didn't think that the decision that Cyanamid had made was different from the decision that the Mexicans would want since if Cyanamid couldn't go into the deal with confidence it was better from the standpoint of the Mexicans as well that Cyanamid withdraw completely.

Mr. Meltzer inquired whether it would be possible to hold off informing the Mexicans for a few days. Mr. Hammett replied that he could see no reason why that wouldn't be all right. He added, however, that if Mr. Garfías should get in touch with Cyanamid, it would be necessary to answer any direct questions which he might ask.

Mr. Meltzer observed that it was unfortunate that Cyanamid had gotten its ideas of the government's attitude from newspapers accounts. Mr. Hammett pointed out that the Cyanamid position was not based entirely on newspaper articles. He said that Cyanamid realized that newspaper reports do not necessarily reflect facts exactly but, on the other hand, there is generally some factual basis for them.

Mr. Meltzer stated in conclusion that he would call Mr. Hammett within the next few days.

BERNARD MELTZER

812.659/50

The Secretary of State to the Ambassador in Mexico (Messersmith)

No. 3574

WASHINGTON, June 24, 1943.

SIR: Reference is made to the Embassy's despatch no. 9463 of April 22, 1943 and to your letter of May 12, 1943 to Mr. Acheson. Attached are a copy of a letter which President Roosevelt himself is sending to President Camacho⁴⁹ and a draft note to be submitted to the Mexican Foreign Office.⁵⁰ You are requested promptly to put the enclosed note in appropriate form and to transmit it to the appropriate officials of the Mexican Government.

The issues raised by the proposed Cyanamid contract have been carefully considered by the interested governmental agencies and by the President. There has been special concern about the dominant position in the Mexican chemical and pharmaceutical industry which would be accorded to American Cyanamid Company if the proposed contract were executed. It has also been felt that an arrangement between the Mexican Government and the Alien Property Custodian along the lines suggested in the attached note would avoid difficulties which might arise from the Cyanamid arrangements and would be more advantageous to the Mexicans and to our economic warfare

⁴⁹ *Infra.*

⁵⁰ Not printed.

program. In view of these considerations, the President directed that his letter to President Camacho and the attached note to the Foreign Office be transmitted.

You should, in your conversations with the Mexican Government, emphasize the desire of this Government to work out an arrangement which will promote the best interests of the Mexican economy and the belief of this Government that the program outlined by the Alien Property Custodian affords a basis for achieving that objective.

Please send to the Department as soon as possible a copy of the note as transmitted to the Mexican Government, and please keep the Department promptly informed of all pertinent developments.

Very truly yours,

CORDELL HULL

812.659/50

*President Roosevelt to the President of Mexico (Avila Camacho)*⁵¹

MY DEAR MR. PRESIDENT: I am writing you because I believe that a splendid opportunity has arisen for me to apply the general principles of friendly cooperation which we discussed during our meeting at Monterrey.⁵² I have been told that your Government has again moved forward to implement the Rio de Janeiro and Washington Resolutions⁵³ by vesting the enemy-owned chemical and pharmaceutical companies in Mexico. I understand that you plan to use these companies in connection with a program which is directed at the development of a nationalized drug and chemical industry, the expansion of your own domestic production, and the training of Mexicans to run that industry independently. I understand further that we in the United States, by furnishing certain management skills, technical services and supplies, could make a definite contribution to the success of this project. I am anxious to extend all possible assistance to your program because I consider it to be of great importance both to the economy of Mexico and the security of this hemisphere.

Mr. Leo Crowley, our Alien Property Custodian, has expressed to me his desire to place the facilities of his companies at your disposal. He has described to me a program involving the use of those facilities, which, he believes, could make a solid contribution to the success of

⁵¹ A notation on the file copy indicates that this message was signed by the President and mailed via diplomatic pouch on June 24, 1943.

⁵² For correspondence concerning this visit, see pp. 417 ff.

⁵³ For text of the resolutions of the Third Meeting of Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15-28, 1942, see Department of State *Bulletin*, February 7, 1942, pp. 117-141. For correspondence concerning this Conference, see *Foreign Relations*, 1942, vol. v, pp. 6 ff. For text of the resolutions of the Conference held at Washington June 30-July 10, 1942, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942). For correspondence concerning this Conference, see *Foreign Relations*, 1942, vol. v, pp. 58 ff.

your plans. I too believe that he could be of real service. I have accordingly asked Ambassador Messersmith to present Mr. Crowley's proposal to the appropriate members of your Government.

I have emphasized to Mr. Crowley that I wish him to be prepared to extend his fullest cooperation to you in the achievement of your objectives. Moreover, I have instructed him that the companies under his custody are to be used in the broad interests of your general program. You will appreciate that I am not in a position to issue such an instruction to a private American corporation.

I fully recognize that arrangements for the management and development of the Mexican chemical industry are matters for your determination. I wish merely to emphasize my belief that the Alien Property Custodian, because of the status of his companies as publicly-owned corporations, could effectively promote the welfare of the Mexican industry. Accordingly, I hope that you will consider the proposal of the Alien Property Custodian before reaching any final decision in the matter.

I am communicating with you in this personal way rather than through official channels because I am confident that in matters of this kind you would agree with me that it is more helpful to us both to communicate with one another in this direct and personal manner.

May I say again how much I valued the conversations I had with you during our recent meetings and how truly beneficial I feel they have been to me. I am looking forward to carrying out the plans you were kind enough to suggest to me and I hope that I may therefore have the opportunity of seeing you again before many months have passed.

With the assurances of my highest consideration and of my warm personal regard, believe me

Yours very sincerely,

812.659/75

*Memorandum by the Under Secretary of State (Welles) to
President Roosevelt*

[WASHINGTON,] June 28, 1943.

Ambassador Messersmith has telephoned from Mexico City. He has received the instruction recently approved by you, directing him to deliver to President Avila Camacho your letter regarding the Alien Property Custodian's proposal to furnish management services for the Mexican drug and chemical companies and to deliver to the Mexican Government the note containing the Alien Property Custodian's proposal. The Ambassador will, of course, carry out

these instructions. He has requested that, before these documents are delivered, I lay before you the following expressions of his opinion:

The Ambassador has been informed by Señor Garfías that the American Cyanamid Company will withdraw its proposal to enter into a contract with the Mexican Government. He believes that, instead of proceeding along this line, the Mexican Government wishes to work out a management arrangement with a group of American companies.

The Ambassador believes that the Mexican authorities would not wish to enter into a contractual arrangement with a company which had been formerly controlled by the Germans.

He believes further that the Mexican authorities would not favor a management arrangement made through an agency of this Government. He says that he understands that two members of the committee in charge of this matter in Mexico have so declared.

He believes that the proposal would be embarrassing to the President of Mexico, since the Ambassador believes that President Avila Camacho would not be able to accede to the proposal, and yet will find it most difficult to refuse the proposal endorsed by the President of the United States.

Finally, the Ambassador expresses the opinion that the proposal may result in no action being taken, with the result that after some lapse of time companies may find their way into private hands, and the replacement program may be prejudiced.

It was explained to the Ambassador that most of the points which he raised were canvassed by the agencies which have participated in the consideration of this matter and in the preparation of the memorandum for your consideration. However, he urges strongly that his views be presented to you. I presume that you will wish the instruction to stand and wish me so to inform the Ambassador.

S[UMNER] W[ELLES]

740.00112A/European War 1939/33248: Airgram

The Ambassador in Mexico (Messersmith) to the Secretary of State

México, D. F., July 2, 1943—11 a. m.

[Received July 5—3 p. m.]

A-1541. Reference is made to Record of Action of meeting of Interdepartmental Committee on Proclaimed List held on June 16, 1943, stating that deletion of certain names listed therein and that deletion generally of names in List 2⁵⁴ is subject to a report from the Em-

⁵⁴ For explanation, see footnote 7, p. 476.

bassy that an undertaking⁵⁵ has been obtained by the Mexican Government from each name indicated.

The Embassy feels that the requirement of an undertaking would be undesirable and recommends that this not be made a condition for deletion of Proclaimed List names for the following reasons:

1. Requirement by Mexican Government of such an undertaking would constitute official recognition by it of the Proclaimed List. It has always refused such recognition and it is believed that it will not change its attitude in this respect.

2. An undertaking such as that requested by the Interdepartmental Committee would constitute a duplication of existing laws of Mexico which prohibit trading with enemy aliens and persons classed as such, and would place the Mexican Government in the embarrassing position of requiring it to obtain from its own citizens statements to the effect that such citizens would obey the laws of Mexico.

3. The great majority of individuals included on List 2 are of such economic insignificance that the benefits resulting from undertakings furnished by them would be negligible. Many of the firms and individuals listed for deletion cannot be found.

4. The condition that undertakings be furnished as a prerequisite to deletion of Proclaimed List firms and individuals is not included in the agreement, the terms of which were submitted by the Ambassador to the Mexican Government in his memorandum of August 10, 1942. It is believed that Mexicans would take position that our Government, under terms of that agreement, is not justified in requesting undertakings.

Lastly, it is believed that to raise the issue of undertakings at this time would bring into discussion many subjects about which the Mexican Government has already indicated its disagreement and therefore the introduction of such discussions would result in disadvantages far outweighing any advantage or benefits which might be derived from the undertakings.

This matter has been fully discussed with the British Consul General in Mexico who is in complete accord with our viewpoint that these undertakings are inadvisable and unnecessary. The Embassy is asking the Foreign Office, however, for its cooperation in informing Mexican firms which have been intervened not to have any transactions with Proclaimed List firms and individuals outside of Mexico in international transactions.

MESSERSMITH

⁵⁵ Term applied to a formal commitment by an individual or company not to have business dealings of any character with any firm or individual on the Proclaimed List.

812.659/50 : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, July 2, 1943—9 p. m.

1078. Your views concerning instruction no. 3574 of June 24, 1943 were placed before the President. The President replied as follows:

"I do not think we should withhold having Messersmith make the suggestion. I think he should do so but with the definite explanation that the action decided on is wholly up to the decision of the Mexican Government and that we are not trying to force anything down their throats.

"But I do think it important that President Camacho and Secretary of State, Padilla, receive the information direct instead of through a committee or any other Mexican authority."

In accordance with the foregoing, please transmit the note and the President's letter with the explanation quoted above. We should, of course, appreciate being promptly informed of the reaction of President Camacho and the other Mexican authorities.

HULL

812.659/87

The Ambassador in Mexico (Messersmith) to the Under Secretary of State (Welles)

MÉXICO, D. F., July 7, 1943.

DEAR SUMNER: I have to refer to my letter of June 28⁵⁶ with regard to the proposed means of collaboration suggested by the Alien Property Custodian on the part of our Government with the Mexican Government in the reorganization of the former German chemical and pharmaceutical firms in Mexico. I felt that I should bring to your attention and to that of the President, the thoughts which I expressed in my letter of June 28. I now have the Department's telegram No. 1078, of July 2, 9 p. m., to the effect that this matter has been discussed with the President and that he desires me to deliver the letter to President Avila Camacho and to forward the note⁵⁷ suggested by the Department.

I have accordingly taken the appropriate steps, as you will note from the appended despatch.⁵⁸ I am of course deferring to the opinion of the President and of the Department in this matter and I presented the matter in the most effective and I am sure the most

⁵⁶ Not printed. The substance of this letter was covered by the telephone conversation reported in the memorandum of June 28 by the Under Secretary of State to President Roosevelt, p. 510.

⁵⁷ Note No. 1438, July 3, not printed. Copy transmitted to the Department by the Ambassador in Mexico in his despatch No. 11260, July 7 (not printed).

⁵⁸ No. 11260, July 7, not printed.

acceptable manner possible this morning to both Dr. Padilla and to the Under Secretary, Mr. Torres Bodet. They were very reserved in their attitude, as I felt they were sure to be, but I presented the matter in the most effective manner possible and I feel that they will at least be prepared to see a representative of the Alien Property Custodian in due course, to go into this matter further, for they will unquestionably want further details before reaching any decision. What their ultimate decision will be after discussing the matter with a representative of the Alien Property Custodian, I cannot foresee, but I do believe that on July 12 there is now a possibility that I will be informed that they will at least be prepared to discuss the matter with a representative of the Alien Property Custodian.

Please assure the President that in view of his desire that I present this matter, I have done so and have done so in the most effective manner that I could. I will keep the Department informed of any developments.

With all good wishes, believe me,

Cordially and faithfully yours,

G. S. MESSERSMITH

740.00112A European War 1939/33602

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 11213

MÉXICO, D.F., July 8, 1943.

[Received July 14.]

SIR: I have the honor to refer to this Embassy's Airgram No. 1541 dated July 2, 1943 at 11 a. m. which recommends that our Government not require individuals now included on the Proclaimed List to give an undertaking as a condition precedent to their deletion therefrom. Reference is also made to this Embassy's despatch No. 11212 dated July 8 [10], 1943⁵⁹ stating that on July 7, 1943 a conference on Proclaimed List matters was held between Sr. Cordoba of the Foreign Office, Ingeniero Topete Bordes of the Junta de Administración, and Messrs. Bay and Holland of the Embassy.

At the meeting on July 7, 1943 the subject of undertakings was brought up voluntarily by the Mexican officials. Ingeniero Topete Bordes stated that the Junta de Administración strictly prohibits vested companies subject to its management and which have been deleted from the Proclaimed List, from having any business dealings of any character with any firm or individual whose name still appears on the Proclaimed List, even though the firm be one which has been vested by the Mexican Government. When asked whether this prohibition would extend to List 2 individuals upon their deletion, he replied that the Junta de Administración is concerned only with vested

⁵⁹ Not printed.

firms and its policies would therefore not apply to such individuals. Sr. Cordoba then stated that the Foreign Office had no legal right to require a Mexican citizen to furnish an undertaking not to deal with Proclaimed List firms since under the laws of Mexico, such dealings are not prohibited. He stated that if the Foreign Office undertook to summon List 2 individuals and require such an undertaking of them, it could place itself in an embarrassing situation since the Attorney General could properly issue instructions that it cease such practices. Sr. Cordoba stated however, that in cases where individuals voluntarily presented themselves to the Foreign Office seeking its assistance in obtaining their deletion from the Proclaimed List, he could and would gladly obtain from them such an undertaking. He pointed out at the same time that to obtain undertakings in this manner from all List 2 individuals would be impractical since some might not ever present themselves voluntarily at the Foreign Office.

The foregoing information is submitted to the Department as being relevant to the subject of the Embassy's Airgram No. 1541 cited above. The Embassy will await the Department's further instructions.

Respectfully yours,

For the Ambassador
HENRY F. HOLLAND
Special Assistant

812.659/80

The President of Mexico (Avila Camacho) to President Roosevelt

MÉXICO, D.F., July 9, 1943.

MY DEAR MR. PRESIDENT: I take pleasure in acknowledging receipt of your kind letter of the 24th of last month, in which you mention the possibility that the Alien Property Custodian, Mr. Leo Crowley, put at the disposal of the Mexican Government members of the enterprises which he manages, in order to contribute to the success of our chemical and pharmaceutical industries.

I am very grateful to you for the spontaneous and friendly interest with which you have been good enough to consider this matter within the framework of close cooperation which characterizes the development of relations between our peoples and, although for the present I am not in a position to make a concrete decision in this matter, I believe that it would be very suitable for Mr. Crowley himself—or his authorized representative—to come, informally, to Mexico with the object of explaining his projects more fully since everything which could result in a collaboration of mutual benefit for our Republics will always be warmly welcomed by us.

If you consider that the trip I allude to can be accomplished, I shall appreciate your letting me know either directly or through Ambassador Messersmith, who is fully acquainted with the matter as he has

likewise begun discussions regarding it with the Secretary for Foreign Affairs of Mexico.

In the last paragraphs of your letter you kindly refer to our interviews at Monterrey and Corpus Christi. I also retain the best of recollections of the important conversations we had on that occasion, which gave me the opportunity of appreciating directly and personally the noble democratic fervor of your decision in favor of a policy of equity and social justice for our America.

With the hope of seeing you soon in the manner in which we planned it during our meeting in the month of April, I greet you with all consideration and renew the assurances of my cordial friendship.

M. AVILA CAMACHO

740.00112A European War 1939/34238

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 11503

MÉXICO, D. F., July 20, 1943.

[Received July 28.]

SIR: I have the honor to refer to the Department's Circular Instruction dated June 18, 1943,⁶⁰ transmitting to this Embassy a copy of a memorandum entitled: "United States Financial Assistance to Eliminate Undesirable Ownership and Control from Proclaimed List Firms". The Embassy is instructed to transmit to the Department any comments, suggestions, or questions which it might have, particularly with reference to the problems of Mexico.

The Embassy is of the opinion that funds are not needed for the purpose of furnishing firms which have been seized by the Mexican Government with working capital. Mexican officials have, in conferences with officers of the Embassy, indicated that most of the seized firms are in excellent financial condition and, in fact, have an excess of available capital which has accumulated as a result of their inability to purchase American merchandise.

The Embassy is further of the opinion that it would be inadvisable to offer financial assistance as an encouragement to the sale of seized firms by the Mexican Government. This conclusion is based on several considerations.

All Proclaimed List firms the seizure of which was recommended by the Embassy have been vested and, so long as they are operated by the Mexican Government, there need be no fear of undesirable activities. It is feared, however, that, should they be sold, a strong possibility would exist that the purchasers would be dummies who, at the expiration of the war, would return the enterprises to their former owners.

The Mexican Government has indicated a desire to retain and

⁶⁰ Not printed.

operate these companies at least for the present. As previous correspondence on this subject reveals, it has established an elaborate and efficient organization for the administration and development of the seized firms, an organization which appears to be determined to see that the companies prosper.

That the policy of the Mexican Government does not envisage the sale of the vested enterprises is also evidenced by statements of various interested persons that the minimum bid required when El Nuevo Japón, Trapeha S.A., and certain other vested companies were offered for sale in the latter part of 1942 was so high as to make bidding impossible. This, coupled with the fact that the offer of sale has not been renewed since their deletion, despite the fact that the representative of the Junta de Administración stated to the Embassy that the reason the firms were not sold was that no one wanted to bid on a Proclaimed List firm, indicates that these offers may have been made without any real intention to sell the firms and solely because of the favorable impression that the offers would make on this Embassy.

Further evidence of the Mexican Government's present unwillingness to offer vested firms for sale arises from the fact that although there is at present a large amount of interested capital available in Mexico for investment in such firms as these, it has been reported that the Mexican Government has discouraged overtures from local investors seeking to negotiate for the purchase of vested firms.

In view of the foregoing, it is not believed that an offer of financial assistance such as that described in the circular instruction under reference would improve the situation in Mexico. The prosperity and growth of vested firms under government ownership and direction constitutes in itself the best assurance that they will never be relinquished to their former owners. The more important aims of a program of financial assistance, namely, the adoption and enforcement of a comprehensive program to eliminate undesirable elements of ownership and control from seized firms, have already been obtained in Mexico. As has been stated, Mexico's program for controlling enemy property is effective not only in its terms but also in the vigorous manner of its application. The Mexican Government has not only seized all firms whose vestiture was requested by this Embassy, but has also taken over numerous other Axis enterprises. It has not only discharged those employees whom its own investigations revealed to be undesirable, but has also removed others who were discharged for no other reason than because the Embassy requested it. Some individuals have been discharged at the request of the Embassy even though the company by which they were employed had already been deleted from the Proclaimed List. The cooperation between the officials of the Mexican Government charged with the administration of vested

companies and officers of the Embassy has been frank and sincere. The Embassy has encountered no resentment against its suggestions regarding the administration of seized firms. On the contrary, the responsible Mexican officials have on several occasions pointed out that, because of its numerous sources of information, the Embassy can frequently be of material assistance to them.

For the foregoing reasons, namely:

a. That there is at present ample capital in Mexico available for investment in the vested firms,

b. That the general policy of the Mexican Government is against their sale,

c. That their prosperity under the administration of the Junta de Administración is a strong factor operating against their ultimate return to their former owners,

d. That a possibility exists that if they are offered for sale the former owners would attempt to repurchase them through dummies, and

e. That Mexican controls over enemy firms are satisfactory,

the Embassy believes that the type of financing described in the Department's instruction under reference is not needed in Mexico and that many of the purposes of the proposed financing have already been accomplished.

Respectfully yours,

For the Ambassador,
CHARLES A. BAY
Commercial Attaché

812.659/95

The Ambassador in Mexico (Messersmith) to the Secretary of State

[Extracts]

No. 12148

MÉXICO, D. F., August 14, 1943.

[Received August 19.]

SIR: In continuation of the Ambassador's despatch No. 11442 of July 13, 1943,⁶¹ concerning the above subject, and with particular reference to the Department's telegram No. 1259 of August 5, 2 p. m.,⁶¹ informing the Embassy that Mr. Morrison G. Tucker, Assistant to the Alien Property Custodian, was due to arrive in Mexico City on August 8, I have the honor to inform the Department that immediately upon the arrival of Mr. Tucker the whole subject was thoroughly gone over with him, and the memorandum which he brought with him from Washington was given careful consideration by the Ambassador and the Counselor of Embassy for Economic Affairs. In these discussions, it was found that some of the features of this

⁶¹ Not printed.

memorandum would surely be unacceptable to the Mexican Government, and it was accordingly decided to prepare a memorandum with certain changes which could be left with the Minister of Foreign Relations and which, it was felt, would be acceptable in the main to both governments and, also, practicable in operation.

A copy of the memorandum as prepared and as submitted to the Minister of Foreign Relations is attached hereto. . . .

Respectfully yours,

For the Ambassador
THOMAS H. LOCKETT
Counselor of Embassy for Economic Affairs

[Enclosure]

*Memorandum by the American Ambassador in Mexico (Messersmith)
to the Mexican Minister for Foreign Affairs (Padilla)*

President Roosevelt, in his letter of June 24, 1943, to President Avila Camacho, expressed his desire to extend all possible assistance to the Mexican Government in its program of utilizing certain former German companies for the further development within Mexico of the chemical, pharmaceutical, dye and allied industries. President Roosevelt's letter also expressed his willingness to have placed at the disposition of the Mexican Government the facilities of certain companies under the control of Mr. Leo T. Crowley, Alien Property Custodian of the United States, with a view of aiding the Mexican Government in its program and to facilitating the training of Mexican technicians and, also, to increasing the supplies of products necessary to the Mexican economy.

In acknowledging President Roosevelt's letter, President Avila Camacho stated⁶² that he welcomed any contribution which would result in a collaboration of mutual benefit and that Mr. Crowley, or, one of his associates, would be received informally in Mexico to discuss more fully any suggestions which Mr. Crowley might make. In accordance with this exchange of communications, Mr. Crowley has designated Mr. Morrison G. Tucker to come to Mexico as his representative.

In Embassy Note number 1438 of July 3, 1943,⁶³ submitting President Roosevelt's communication, the Ambassador of the United States outlined a possible approach to the problem of the Mexican Government as suggested by the Alien Property Custodian. Since the transmission of this suggestion, the Alien Property Custodian and other

⁶² Letter of July 9, p. 515.

⁶³ Not printed.

Agencies of our Government have given further and careful consideration to all possible measures of assistance and cooperation which would be in line with the traditional policies of the Mexican Government and which would accomplish the ends which the Mexican Government has in mind with respect to its domestic chemical and pharmaceutical industries.

Bearing in mind the best interests of the two Governments, the Alien Property Custodian and other Agencies of the United States Government believe that maximum benefits may be obtained for Mexico under a plan such as herein suggested, which would draw upon the technical and supply resources not only of the chemical concerns controlled by the Custodian, but also of other private United States enterprises. Accordingly, the following plan is submitted for the consideration of the Mexican Government as a basis for further discussion. As will be readily discerned, the plan is not complicated, but is essentially simple. It leaves the decision to the Mexican Government or an Agency thereof as to what services it may desire from companies under the jurisdiction of the Custodian or from other private companies whose facilities may be beneficial to the success of the Mexican program.

The plan proposed is as follows:

1.—It is suggested that the Mexican Government organize a Company for the purpose of holding the former German equity and credit interests in certain vested concerns engaged in the pharmaceutical and chemical field. The holding of the stock and other interests in these vested companies would give the Mexican Holding Company full control while leaving each individual vested concern separate as to its assets and operating management, if so desired. By maintaining each vested concern as a separate entity, instead of combining the assets of all vested concerns into a whole, individual United States companies could make separate contracts with individual vested enterprises. It will be noted in Item 3 that the plan herein suggested provides for separate contracts or agreements between related Mexican and United States companies or groups of companies. It is suggested that the directorate of the Mexican Holding Company be small and be made responsible to the President of the Republic or to the Junta Intersecretarial.

2.—It is further suggested that a Joint Commission be appointed to be composed of five members. Three members of this Commission should be chosen from the directorate of the Mexican Holding Company, the president of the Mexican Holding Company serving as chairman of the Joint Commission. The two United States members of the Commission should be named by the Alien Property Custodian. This Joint Commission would act in a liaison and advisory capacity to the Mexican Holding Company and to the Alien Property Custodian. It would advise as to which companies, both Mexican and United States, should be included in any agreements or contracts and, also, as to what provisions and terms the contracts and agreements should contain.

3.—The Alien Property Custodian controls a number of chemical and pharmaceutical concerns which manufacture many of the products which have been distributed in Mexico by concerns now vested by the Mexican Government. Such concerns under the control of the Custodian would be in a position to make separate and favorable contracts or agreements with corresponding concerns vested by the Mexican Government. These separate contracts or agreements in some instances might only provide that the United States company will supply the Mexican company with products which it requires for domestic distribution and sale. In the case of another Mexican company, the contract might require not only the supplying of United States products, but, also, technical assistance. Still another intervened company might not only require a source of supply and technical aid, but, also managerial assistance. Furthermore, there is a group of vested companies whose primary function is to distribute products throughout the Republic of Mexico and this group might need the experience and assistance of experts from large United States distributing organizations. The main point is that the Mexican Holding Company would choose the type of assistance which each individual vested company or group of companies might require. The request for this assistance would be transmitted to the Alien Property Custodian through the Joint Commission, and the Alien Property Custodian would recommend the company or companies under his jurisdiction best fitted to give the assistance required by the Mexican Holding Company. Should the Alien Property Custodian find that no company under his jurisdiction was adequately equipped to perform the services requested by the Mexican Holding Company, then, he would solicit the cooperation of other independent United States companies whose experience, skill and organization would most efficiently meet the requirements. Thus, the Alien Property Custodian would plan to draw not only upon the resources and skill of companies under his jurisdiction, but, also, upon United States industry in general. It is envisioned that the contracts or agreements to be made with the vested Mexican companies would not have the Alien Property Custodian as a party thereto, but, the individual companies under his jurisdiction or other private companies desiring to participate.

4.—It is important to point out that the Alien Property Custodian, Mr. Leo T. Crowley, is also the Director of the Office of Economic Warfare.⁶⁴ This latter Agency is the licensing authority for exports from the United States and, therefore, Mr. Crowley is in a favorable position to facilitate the necessary supply arrangements within the limits imposed by the joint war effort of our two Republics.

5.—By means of the Joint Commission the Mexican Holding Company could make known to the Alien Property Custodian its desire for the establishment or creation of new or additional facilities essential to the healthy development and expansion of the pharmaceutical and chemical industries in Mexico. The Alien Property Custodian would use his best efforts to assist the Mexican Holding Company in these respects.

⁶⁴ Successor of the Board of Economic Warfare.

6.—With reference to the former German trademarks, it is suggested that they gradually be retired from active use by the vested companies and that new trademarks be instituted. During the period while the new trademarks are being established in the market, they would be used in conjunction with the old German trademarks, the latter being withdrawn as the new trademarks become known. Other aspects of the trademark question could be considered by the Joint Commission.

The plan suggested above has four primary purposes. First, it affords the Mexican pharmaceutical, chemical, dye and allied industries all possible assistance from United States industry. Second, the plan leaves to the Mexican Government the determination of the type and degree of assistance which each of the vested companies may require. Third, the plan provides that all commercial and business relations shall be between private United States concerns and the Mexican Holding Company or Mexican vested enterprises. And fourth, unless the Mexican Government requests otherwise, the administration and management of the vested companies will remain entirely in Mexican hands. The purpose of the plan is to endeavor to make available to the Mexican Government sources of supply, technical experience and other forms of assistance which the Mexican Government may desire in relation to the development and coordination of vested companies in the field of pharmaceuticals, chemicals, dyes, and allied products.

MEXICO, August 10, 1943.

812.659/97 : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, August 17, 1943—9 p. m

1348. From Acheson. Your personal letter August 13, 1943.⁶⁵

Full comment on developments is being withheld pending receipt of the despatch referred to ⁶⁶ in page 2 of your letter under reference.

If despatch referred to does not do so, please inform Department fully how the governmental commitments of the letters of President Roosevelt and Mr. Crowley are to be carried out under Tucker's new suggestions. The Development Corporation was, of course, suggested by Tucker's memorandum as the best method of discharging these responsibilities. The Department has recognized from the outset the political difficulties of this suggestion, but believed that the nature of the commitments made the assumption of responsibility by this Government unavoidable.

⁶⁵ Not printed.

⁶⁶ Despatch No. 12148, *supra*.

While Tucker will of course be permitted considerable scope for negotiations within outlines of a general plan approved by the Department, it is suggested that basic changes in the Custodian's proposal should be referred to the Department before being presented to the Mexicans. The personal interest in this matter of the President and the importance of the over-all policies involved make it undesirable to rely on later clearance for basic issues.

The Department's comments on Tucker's memorandum should not be construed as a disregard of the bilateral character of the negotiations. Rather, the Department has emphasized that the proposal must recognize Mexican needs and expectations, especially in view of this Government's prior broad commitments. [Acheson.]

HULL

812.659/80

*The Acting Chief of the Foreign Funds Control Division (Meltzer)
to the Assistant to the Alien Property Custodian (Tucker)*

WASHINGTON, August 27, 1943.

DEAR TUCK: I was glad to receive your letter of August 12th and the copies of your letters of August 14th ⁶⁷ to Jim Markham.⁶⁸

The negotiations seem to have gotten off to an excellent start, and we all feel that you and the Ambassador have very skillfully handled a very difficult situation.

As you know, we were not particularly wedded to the idea of a development corporation. It may be useful as a kind of historical note, however, to make a distinction between two questions. The first question is whether or not a development corporation would be a desirable mechanism for organizing the resources of the Alien Property Custodian and the other American companies in connection with the Mexican program. The second question is the degree of intervention which such a development corporation or any other instrument, such as GAF,⁶⁹ for example, would exercise in the internal management of Mexican businesses. We always recognized that the degree of such intervention would be a matter to be worked out with the Mexicans. However, it seemed to us that even if it were decided to have management which was exclusively Mexican, the development corporation might be an effective instrumentality for organizing United States participation. For example, it might have functioned as the instrument by which American technicians or supplies might be made available to the Mexican management corporation even though it (i.e. the

⁶⁷ None printed.

⁶⁸ Deputy Alien Property Custodian.

⁶⁹ General Aniline and Film Company (United States).

development corporation) did not participate at all in internal operations in Mexico.

I have felt that we did not draw this distinction with sufficient clarity. We would, of course, have been clearer but for the fact that the Cyanamid negotiations and various reports from Garfías and from Mexico indicated that the Mexicans were prepared to accept a considerable degree of American participation in management.

It has been very pleasant to read Ambassador Messersmith's commendatory reports about your work in Mexico. I hope your mission will be as pleasant as it has been effective.

Sincerely yours,

BERNARD MELTZER

812.659/100

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 12650

MÉXICO, D. F., August 31, 1943.

[Received September 4.]

SIR: I have the honor to refer to the Embassy's despatch No. 12649 of August 31, 1943,⁷⁰ concerning the plans of the Mexican Government to establish a chemical industry in Mexico and with particular reference to the Embassy's despatch No. 12148 of August 14, 1943, to transmit herewith a copy of the Spanish text of Note No. 359 dated August 27, 1943, together with an English translation thereof,⁷¹ in which the Mexican Government outlines the terms under which it is willing to accept the cooperation of the American Government for a chemical industry in Mexico.

In brief, the Mexican Government proposes to organize a corporation to take over the properties, interests and rights of certain German-owned companies now in the possession of the Mexican Government and which are engaged in chemical, pharmaceutical, dye and related activities. When organized, the holding company is to have absolute ownership over all the seized properties while maintaining within the corporation the integrity of each of the companies concerned. The Mexican Government is agreeable to the proposal that assistance required, either material, technical or administrative, be provided by means of separate contracts or agreements between firms controlled by the Alien Property Custodian and the corresponding firms controlled by the Mexican Government, or, in the event that no firm under the jurisdiction of the Alien Property Custodian possesses the appropriate factors, the cooperation of private American companies qualified by experience, ability and organization will be sought. The Mexican holding entity and the Alien Property Custodian shall each designate

⁷⁰ Not printed.

⁷¹ Enclosures not printed.

a commissioner to act in consultative capacity and in liaison between the Mexican organization and the Alien Property Custodian. Their chief function shall be to determine the character of the assistance needed and which American company or companies are best able to furnish it. The Commissioners shall also deal with the question of the creation of new or additional facilities necessary to the development and expansion of the Mexican chemical industry.

The communication from the Mexican Government takes note that the Alien Property Custodian, as director of the office of Economic Warfare, is in an advantageous position to facilitate the necessary arrangements for authorizing the exportation of supplies, subject to the exigencies of the united war efforts of the two republics, and states that a study will be made of the desirability of the gradual withdrawal from active use of former German trade marks hitherto in use by the seized firms.

The note accepts the proposal as set forth in the memorandum presented to the Foreign Office, a report of which was forwarded in despatch No. 12148 of August 14, 1943, with the exception of two slight modifications. These modifications consist in making the Board of Directors of the Mexican holding company responsible to the President of Mexico, and in the designation of two commissioners, one to represent the Mexican holding company and one to be designated by the Alien Property Custodian instead of five commissioners as originally proposed. The modifications were suggested by Sr. Cabrera in a conversation which took place on August 14 and reported to the Department in despatch No. 12153 of August 16, 1943.⁷² The Embassy intends to make no acknowledgment of the note from the Foreign Office until it has received approval from the Department that the proposal and the acceptance of it by the Mexican Government satisfactorily meet with the obligations of President Roosevelt with President Avila Camacho in their conversation which took place in Monterrey.

Respectfully yours,

For the Ambassador

THOMAS H. LOCKETT

Counselor of Embassy for Economic Affairs

812.659/100

The Secretary of State to the Ambassador in Mexico (Messersmith)

No. 4305

WASHINGTON, September 22, 1943.

SIR: Reference is made to the Embassy's despatches no. 12649 and no. 12650, both of August 31, 1943,⁷³ and enclosures, all with reference

⁷² Not printed.

⁷³ Despatch No. 12649 not printed.

to negotiations with the Mexican Government concerning the reorganization of the vested drug and chemical firms in Mexico.

The Department has studied very carefully the exchange of memoranda between the Embassy and the Mexican Government. The Department is disturbed by the implication in paragraph 3 of the plan as proposed in the Embassy's memorandum of August 10⁷⁴ and reflected in paragraph 2 of the memorandum from the Mexican Government,⁷⁵ that the contracts will be made with companies under the control of the Alien Property Custodian wherever these companies are adequately equipped to perform the services required by the Mexican holding company. The change in the basis of negotiations which excluded any participation by the United States Government or any instrumentality thereof, except in an advisory capacity, in the reorganization of the Mexican vested firms, should reduce the Custodian's companies to the level of private companies in competition with the other private companies. Both the Alien Property Custodian and the Department are unwilling to permit any arrangement which has the appearance of giving the Alien Property Custodian companies a competitive advantage in contracts which are to be negotiated on a purely commercial basis.

Although it is clear that Mr. Crowley intends to direct his companies to make contracts which will be advantageous to the Mexicans, nevertheless, the Department and the Alien Property Custodian may be subjected to severe criticism for having used the Custodian's governmental position to advance the interests of companies which are in competition with other American firms. The Department believes that it is imperative that both our note to the Mexicans and their reply be rephrased so as to indicate that the commissioner appointed by the Alien Property Custodian acting in the capacity of a representative of this Government, will use his good offices to select that American company best able to render the assistance required by the Mexican holding company on terms satisfactory to the Mexicans.

The Department recognizes the difficulty involved in incorporating this change into notes which have already been delivered. Nevertheless, in view of the unfortunate implication that is contained in the present phrasing of the notes, you are requested to place before the Mexicans this Government's desire that the notes be amended to conform with the ideas expressed above. The Department is confident that the Mexicans will themselves appreciate the difficulties that might flow from a publication of the note in its present form. Representatives of the Department have had an informal conference with Mr. Mahoney of the Office of the Alien Property Custodian since his

⁷⁴ *Ante*, p. 519.

⁷⁵ Dated August 27, not printed.

return from Mexico and understand that this point has been re-examined by the Embassy and that remedial steps along the lines suggested above are being taken.

With further reference to the note transmitted by the Mexicans, the Department notes that the Mexican Government will study the desirability of adopting the trade-mark policy urged in the Embassy's memorandum. As indicated in the Department's circular instruction of July 17,⁷⁶ the Department feels that the continued use of the Axis trade-marks is dangerous because of the possibility that it may facilitate the re-establishment of the private arrangements for allocation of markets that existed before the war. It is not intended by this to suggest that this Government is opposed to the re-establishment of trade relations with enemy countries after the war, but merely to emphasize the necessity for obstructing the return of German cartel domination. It would, of course, be highly desirable if the Mexicans could be persuaded to take a stronger line in their note—to indicate, for example, agreement in principle, with study to be devoted to the best means of carrying out the program. The Department realizes, of course, that you and Mr. Tucker are thoroughly conversant with the problem and have undoubtedly made every effort to gain the adoption of a trade-mark policy consistent with the Department's view.

The Department and the Office of Economic Warfare are somewhat disturbed lest the Mexicans may be attaching a special significance to the fact that Mr. Crowley is Director of the Office of Economic Warfare. The Office of Economic Warfare has requested that it be made clear to the Mexicans that allocations of material to the vested properties must be made in accordance with the relevant statutory and administrative provisions and on an impartial basis in the light of war requirements and the requirements of the United Nations and of all the American republics. The Department concurs in the Office of Economic Warfare's request.

It is noted that the exchange of notes makes no reference to the problem of the continued employment of Axis personnel. The Department is confident that the Mexicans are in agreement that undesirable personnel not discharged at the time the companies were deleted from the Proclaimed List should be eliminated as rapidly as suitable replacements can be found. If your discussions have not raised this point, however, it would be desirable to clarify this Government's position on this matter in order to make sure that there is a common understanding of the economic warfare objective to be gained.

With reference to the informal memorandum which Mr. Tucker handed to the Mexicans at the conference on August 27,⁷⁷ the Depart-

⁷⁶ Not printed.

⁷⁷ Memorandum not printed.

ment is concerned by the suggestion that a merger might be arranged of the vested Bayer Company and the Sterling organization in Mexico. It is far from clear to the Department whether the proposal is to have Bayer acquire the Sterling interests or whether the converse is contemplated. The latter merger would be covered by the Sterling Representations, and, as a consequence, would require the approval of the Department, Treasury and the Department of Justice before it could be consummated. There are informal, but nonetheless definite indications, that permission for such a transaction would not be forthcoming. Moreover, it seems to the Department desirable, from a standpoint of policy, that the Sterling organization and Bayer, in view of the fact that they sell competing products, should not be merged but that their independence should be maintained.

It is the Department's thought that the Embassy's note of reply might refer to this Government's gratification at the success of the negotiations between the Alien Property Custodian's mission and the Government of Mexico, and continue by stating that, in accord with the commitments made in President Roosevelt's letter to President Avila Camacho, this Government would be happy to implement any suggestions that the Mexicans might wish to make with reference to intergovernmental cooperation to supplement the arrangements already made.

The Department wishes to congratulate you, Mr. Tucker and the members of your staffs on your splendid handling of very difficult and intricate negotiations. The Department recognizes that there may arise many difficult problems in the implementation of the agreement that has been worked out. It is believed, however, that these difficulties can be readily overcome, and that arrangements within the framework which has been established will be beneficial to the economies both of this country and of Mexico, and conducive to the enduring friendship between our two republics.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

812.659/110

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 14002

MÉXICO, D. F., November 9, 1943.

[Received November 13.]

SIR: With reference to the Embassy's despatch No. 13328 of October 4, 1943, and the Department's strictly confidential telegram No. 1735 of October 15, 1943, 11 p. m.,⁷⁸ concerning the desirability of revising

⁷⁸ Neither printed.

paragraph 3 of the Embassy's memorandum of August 10, 1943, containing the proposal of the Alien Property Custodian to assist the Mexican Government in its plans to establish a chemical industry in Mexico, I have the honor to inform the Department that the Embassy submitted a revised memorandum to the Mexican Government which bore the date of August 10, 1943, and substituted for the original text of paragraph 3 the revised text of that paragraph as authorized by the Department's telegram under reference.

The Embassy has now received from the Foreign Office an acceptance of the Embassy's revised memorandum of August 10, 1943. The communication from the Foreign Office is dated August 27, 1943, and is in all respects similar to the original memorandum of the Foreign Office bearing that date. The only change is in paragraph 2, which has been modified to conform with the changes made in paragraph 3 of our memorandum of August 10, 1943. In other words, a new exchange of memoranda has been effected in which the text of paragraph 3 of our memorandum of August 10, 1943, has been modified in accordance with the Department's wishes, and the memorandum from the Foreign Office has accepted the modification in a revised memorandum. This last exchange of memoranda is, therefore, in place of the original exchange of memoranda and is to constitute the official record.

The only exception taken in the memorandum from the Foreign Office to the revised text of paragraph 3 of our memorandum relates to that part of our paragraph 3 which reads as follows: "The request for this assistance would be transmitted to the Alien Property Custodian through the joint commission . . .". The memorandum from the Foreign Office states that requests for assistance will be transmitted to the Alien Property Custodian through the *Special Commissioner* instead of through the joint commission, which is mentioned in paragraph 3 of our memorandum. The Embassy perceives no objection to this change suggested by the Foreign Office, and it will await approval of the Department before making an acknowledgment and accepting the terms of the communication.

There are transmitted herewith copies of the memorandum of August 10, 1943, with the revised paragraph 3 as submitted, and copies of the memorandum received from the Foreign Office with revised paragraph 2.⁷⁹

Respectfully yours,

For the Ambassador
THOMAS H. LOCKETT

Counselor of Embassy for Economic Affairs

⁷⁹ Latter not printed.

[Enclosure]

*Memorandum by the American Ambassador in Mexico (Messersmith)
to the Mexican Minister for Foreign Affairs (Padilla)*

[Extract]

3.- Acting as an intermediary, the Alien Property Custodian is in a favorable position to use his good offices to the end of procuring assistance for the Mexican Holding Company from either the companies under his control or private American companies, whichever may be best fitted to render the type of assistance required. After the Mexican Holding Company has chosen the United States firms which it deems best fitted to perform the services required, then contracts between the companies under the jurisdiction of the Holding Company and the individual United States companies could be entered into on a voluntary commercial basis. These separate contracts or agreements in some instances might only provide that the United States company will supply the Mexican Company with products which it requires for domestic distribution and sale. In the case of another Mexican company, the contract might require not only the supplying of United States products, but also technical assistance. Still another intervened company might not only require a source of supply and technical aid, but, also, managerial assistance. Furthermore, there is a group of vested companies whose primary function is to distribute products throughout the Republic of Mexico, and this group might need the experience and assistance of experts from large United States distributing organizations. The main point is that the Mexican Holding Company would choose the type of assistance which each individual vested company or group of companies might require. The request for this assistance would be transmitted to the Alien Property Custodian through the Joint Commission, and the Alien Property Custodian would recommend, after careful consideration, the company or companies best fitted to give the assistance required by the Mexican Holding Company. In this manner, the Alien Property Custodian would draw upon not only the resources and skill of companies under his jurisdiction, but also upon the United States industry in general. All contracts or agreements to be made with the vested Mexican companies would be made directly with the American firms without the participation of the Alien Property Custodian as a party thereto.

MEXICO, August 10, 1943.

ARRANGEMENTS MADE BY THE UNITED STATES AND MEXICO REGARDING THE TEMPORARY MIGRATION OF AGRICULTURAL AND OTHER WORKERS INTO THE UNITED STATES ⁸¹

811.504/1045a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, January 1, 1943—1 p. m.

1. From Agriculture. From best information available, for work in essential crops in California and Arizona during year 1943, we would need following movement of Mexican Agricultural workers: Entering United States in January, 2800; February, 3200; March, 3200; April, 2600; May, 1400. Returning to Mexico: June, 2200; July, 1800. Entering United States in August, 8200, September, 4800. Returning to Mexico: October, 3800; November, 6400; December, 6000. These figures may be subject to certain adjustments, but present indications are that any such adjustments would tend to increase them to some extent rather than decrease.

If short staple cotton, pruning, general farming and livestock enterprises are included, the peak on account of these operations would reach 50,000 in November 1943. Should these be included we will submit itemized month by month figure.

We should appreciate this being brought to attention of proper Mexican authorities, asking their approval as quickly as possible, so necessary arrangements can be made with other agencies of United States concerned. [Agriculture.]

HULL

811.504/984 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, January 8, 1943—7 p. m.

[Received January 9—3:07 a. m.]

21. Our Farm Security people engaged in recruiting agricultural laborers ⁸² are somewhat embarrassed by the fact that about 5000 laborers are applying for the approximately 1000 jobs presently being filled. As yet we are under no pressure from the Mexican authorities but it is possible that we soon may be. It would accordingly be helpful if the Department might expedite reply to the Embassy's telegram No. 9 of January 4, 8 p. m., ⁸³ since if by January 14 authorization is

⁸¹ For previous correspondence concerning agricultural workers, see *Foreign Relations*, 1942, vol. vi, pp. 537 ff.

⁸² For data on United States governmental agencies involved in the recruiting program, see telegram No. 1001, January 26, to the Chargé in Mexico, p. 537.

⁸³ Not printed; it indicated that large numbers of laborers refused to renew their contracts and returned to Mexico only to reappear in the recruiting lines in the next season. The Ambassador urged the Department to find a way of using these laborers between seasons. (811.504/1046)

given for engaging additional workers all difficulty relating to the present large number of applicants will probably disappear. It would be preferable were we able in informing the Mexican Government of additional recruiting to be able to give them a well worked out plan as requested in the above cited telegram.

Farm Security people here point out that there may be some controversy in the United States in the event efforts are made to collect the victory tax⁸⁴ and the California state compensation tax which is understood to be of 1%.

MESSERSMITH

811.504/984 : Airgram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, January 15, 1943—4:45 p. m.

A-939. Reference is made to the Embassy's telegrams nos. 9⁸⁵ and 21 of January 4 and 8, 1943, respectively, and to the telephone conversation between Messrs. Bursley⁸⁶ and MacLean⁸⁷ on January 14 regarding the securing of agricultural workers in Mexico under the agreement of August 4, 1942.⁸⁸

Major Walker of the Farm Security Administration⁸⁹ has now informed the Department of the following after 2 days of conference with officials of the War Manpower Commission and after checking with the Immigration and Naturalization Service.

1. It is understood that the total of 3,000 workers certified for the California beet growers in lots of 1,500 each on September 3 and September 26, respectively, can be maintained in California by selecting and contracting additional workers to replace losses by return of workers to Mexico. This total can be maintained without further certification until March 1, 1943 and it is subject to extension on or before that date if the United States Employment Service certifies as to the continued need for this group of workers.

2. Arrangements have been made to permit the use of contingents of the 3,000 mentioned above for other crops than beets, for example for citrus fruits, which would permit the immediate selecting of 250 workers for citrus crops, or other similar contingents, provided the total number in the United States does not exceed the total of 3,000.

⁸⁴ A five percent tax upon the "victory tax net income", i.e., gross income less certain items such as depreciation, amortization, alimony, interest paid, etc. See Subchapter D of the Internal Revenue Act of 1942, 56 Stat. 884.

⁸⁵ Not printed, but see footnote 83, p. 531.

⁸⁶ Herbert S. Bursley, Counselor of Embassy in Mexico.

⁸⁷ W. G. MacLean of the Division of the American Republics.

⁸⁸ For correspondence on the negotiation of the agreement, see *Foreign Relations*, 1942, vol. vi, pp. 537 ff. For text of the agreement, see Department of State Executive Agreement Series No. 278, or 56 Stat. (pt. 2) 1759.

⁸⁹ Maj. John O. Walker, Assistant Administrator.

Major Walker says that Mr. Hewes⁹⁰ has been instructed to clear this matter with Mr. Brown⁹¹ in Mexico City.

3. On October 8, 1942 there was a certification of 2,000 workers for Arizona cotton and 500 workers for vegetable crops at Yuma, Arizona. The 2,000 certification expired on December 1, 1942, and no workers were nor can be now supplied under this certification. Approximately 451 workers have been supplied for Yuma, and although the certification contained no time clause, Immigration⁹² said that no further workers should be selected under this certification. On January 15, however, Immigration called to reverse this point, and state that 49 can be recruited now and that the 500 total can be maintained in the United States until further notice without further certification.

4. On October 28, 1942, there was a certification for 1,800 workers for the Imperial Valley. Some 733 of these workers were contracted in November, and it is the Department's understanding that the balance of approximately 1,000 workers has been selected and contracted in recent days. This certification is on a different basis. It permits maintaining the workers in the United States for 90 days from the date of entrance.

5. At present under consideration by the United States Employment Service of the War Manpower Commission are certifications from its field representative for 300 workers for Kern County, California, 700 for the State of Arizona, and 10,500 for unspecified crops in California. Major Walker states that he has reason to believe that the first two certifications will be endorsed during the next few days and forwarded to Immigration, together with 3,000 of the workers specified in the last certification, the balance to await the receipt here in Washington of the detailed report from the USES⁹³ field representative.

6. In regard to the 1943 estimate for workers, contained in the Department's telegram no. 1 of January 1, 1943, and the subject of the Embassy's telegram no. 9, Major Walker states that the June and July contingents marked for return to Mexico can be ignored, and that he believes there will be no difficulty in absorbing these workers.

7. In regard to the guayule workers, Major Walker states that studies are being made to determine the peak times of need in this field with the idea of being able to meet peak demands by shifting of off-season surpluses of workers from New Mexico and Arizona. Such a shifting would help to take care of any surplus from the adjustment mentioned in 6 above. Major Walker is not able to make a definite statement on the guayule workers until the studies mentioned above

⁹⁰ Lawrence I. Hewes, Regional Director, Farm Security Administration.

⁹¹ Harry F. Brown, Representative of the Farm Security Administration in Mexico City.

⁹² The Immigration and Naturalization Service.

⁹³ United States Employment Service.

are completed, and likewise lacks specific information regarding long staple cotton workers.

8. The victory tax, referred to in your telegram no. 21, has been held not to be applicable to workers brought in, Major Walker states, but he does not yet have an opinion as to whether the California state compensation tax is applicable.

Major Walker has promised to keep the Department informed on developments in regard to the points listed above, and this information will be promptly forwarded to the Embassy.

He also suggests that the Embassy may wish to mention informally to Mr. Hidalgo ⁹⁴ of the Foreign Office the desirability of increasing the amounts withheld for savings to be returned to Mexico. He feels that many of the workers are spending their earnings freely on non-essentials and that it would be to their interests to have more savings at their disposition upon return to Mexico. The Department perceives no objection to this suggestion.

Immigration on January 15 further clarified the question of replacements by stating (a) that replacements could be contracted only for unexpired period of certification. Those in 2 above, for example, can be given contracts expiring March 1; those in 4 above for any remaining period of the 90 days from entry of the contingent workers of which are being replaced. For example, if the Farm Security Administration wishes to replace any losses from the contingent of 733 contracted in November, the contracts given replacement workers would be for the unexpired portion of 90 days counted from the date of entry of the original 733. Any replacements under the 1,000 just contracted under the same certification, however, would be contractable for the unexpired portion of 90 days counted from January 14 or 15, the day in which it is presumed they would enter the United States. (b) Future certification is expected to be on one definite time basis, similar to that explained in 1 and 2 above. (c) Replacements will need new global entry permits from Immigration (but not new certification). (d) Immigration will telephone new information regarding certifications directly to the Department.

HULL

811.504/1009 : Telegram

The Chargé in Mexico (Bursley) to the Secretary of State

MEXICO, January 18, 1943—4 p. m.

[Received 10:15 p. m.]

53. Reference Department's airgram 939, January 15, especially paragraph 5. I cannot too strongly urge upon the Department the

⁹⁴ Ernesto Hidalgo, Official Mayor of the Mexican Ministry for Foreign Affairs.

necessity for prompt action with regard to: (a) presentation of a specific program to the Mexican Government with regard to the recruitment of agricultural workers in 1943. (Plan heretofore furnished in Department's telegram No. 1 as amended by paragraph 6 of airgram 939 appears satisfactory basis if) (b) immediate authorization for recruitment of substantial number of farm laborers is received here.

The Mexican authorities are confronted with an acute problem caused by the movement to Mexico City of about 4,000 workers who cannot be absorbed under existing authorizations. These workers, who are said by Mr. Brown to be of a type well qualified for our needs, create a problem in connection with their feeding, lodging, et cetera. Unless we can recruit a substantial part of these people the Mexican Government must expend money for their support or return to their homes.

While this problem is not directly of our making it is a political problem for the Mexican Government.

With no desire to be an alarmist over the situation I venture to predict that if we do not formulate our plans promptly we are in danger of collapse of the agricultural recruitment program. Brown shares this view particularly following statements made to him in the Mexican Department of Labor daily for more than a week, which have indicated that it is not interested in piecemeal recruiting of small groups a few hundred.

BURSLEY

811.504/984: Telegram

The Secretary of State to the Chargé in Mexico (Bursley)

WASHINGTON, January 18, 1943—9 p. m.

94. Further reference Embassy's telegram 21, January 8. Immigration Service has informed Department of following additional certifications for Mexican agricultural workers, and Farm Security Administration has confirmed them, stating that Hewes has been asked to inform Brown in Mexico City, January 14, 300 workers for Kern County California, and January 15, 3,000 workers for essential crops throughout California. Both certifications specify December 31, 1943 as expiration date.

HULL

811.504/1039

The Chargé in Mexico (Bursley) to the Secretary of State

No. 6878

MEXICO, January 22, 1943.

[Received January 29.]

SIR: I have the honor to refer to the Embassy's despatch 6783 of January 19, 1943,⁹⁵ regarding the recruiting of agricultural laborers.

This morning I had a talk with Señor Hidalgo, who informed me that the Embassy's note,⁹⁵ of which a copy was furnished the Department under cover of despatch 6783, gave in writing the data he needed for further conversations with the Mexican Labor Department.

Señor Hidalgo said that the Labor Department was making a study with regard to the extent to which and places where agricultural labor would be available for the United States. He again referred to the probability that after the present situation was cleared up recruiting would take place in two or three other parts of the Republic.

He said he could not assure us that the number of men we wanted would be available, but said that since [*once?*] the data were available he would endeavor to give us an indication month by month of the number of workers who could be recruited in Mexico. In this respect he mentioned that beginning around May there would be considerable need of agricultural labor in Mexico itself.

He said that he would ask the Mexican Labor Department to act as promptly as possible in compliance with the request contained in our note.

He said that the Mexican Government "declined courteously" our informal offer to appoint a small group of "collaborators" to supervise the Mexicans in the United States who had been recruited under the cooperative program. He said that for both practical and fundamental reasons the Mexican Government did not feel it could accept our suggestion. I again reminded Señor Hidalgo that we had made this suggestion because of our familiarity with budgetary difficulties in connection with items that had not been foreseen, but that we of course did not desire to insist. Señor Hidalgo again stated that the offer was appreciated but that he and the Minister of Labor had decided that they would have to find the funds somehow and probably for a greater number than the small group I had mentioned, in view of the increased number of Mexicans who would probably be in the United States before very long.

I pointed out to Señor Hidalgo that we urgently needed a number of the workers currently being requested but that we had sought to have the requisition expedited and made as large as possible with a view to helping in the solution of the problem in Mexico City. Señor

⁹⁵ Not printed.

Hidalgo said he understood this as a cooperative action on our part and that the problem had become less acute because of the exodus of an as yet undetermined number of those who were clamoring for work.

Señor Hidalgo again offered his full cooperation to us.

Respectfully yours,

HERBERT S. BURSLEY

811.504/984: Telegram

The Secretary of State to the Chargé in Mexico (Bursley)

WASHINGTON, January 26, 1943—5:45 p. m.

1001. Reference is made to the Department's telegrams nos. 1 and 94 of January 1 and 18, 1943, respectively, and to the Department's airgram no. 939 of January 15, 1943 regarding the securing of agricultural workers from Mexico in the present year.

Major John Walker of the Farm Security Administration has informed the Department that the War Manpower Commission has turned over to the Department of Agriculture the complete operating responsibility for recruiting and placing of all farm labor, and that this action gives that Department, and consequently the Farm Security Administration, the entire control over certification both for determining the need for farm workers and for designating the place from which workers will be secured, subject to the policies of the War Manpower Commission. He stated that the new arrangement made it possible for the Farm Security Administration to carry out the 1943 program or estimate for the securing of workers from Mexico as set forth in the telegrams and airgram under reference. He added that this would also permit the Administration to certify immediately the need for the balance of the 10,500 workers for unspecified crops in California as set forth in paragraph 5 of the Department's airgram no. 939, the certification of 3,000 of which was the subject of telegram no. 94.

Major Walker further pointed out that the new arrangement would permit prompt handling by the Administration of any future difficulties such as those caused recently in Mexico City when 5,000 workers caused disorders in seeking selection for 1,000 contracts then available, and said that this assurance could be given to the Embassy. It was stated to him that this statement would be given only to the Embassy and in confidence, because if the information were given to the interested Mexican officials it might be interpreted in the future as an obligation on the part of this Government to supply contracts for all applicants. He agreed with this point, and promised to keep the Department informed of future developments including the progress made in the next few days in organizing the Farm Security Adminis-

tration to handle these increased responsibilities for the whole farm labor program.

HULL

811.504/1002 : Telegram

The Secretary of State to the Chargé in Mexico (Bursley)

WASHINGTON, January 28, 1943—2 p. m.

141. Reference is made to the Department's instruction no. 2402 of January 6, 1943 and to the Embassy's despatch no. 649 [6496] of January 9, 1943, in reply thereto,⁹⁶ in reference to the selecting in Mexico of workers other than for agriculture.

The Ambassador⁹⁷ discussed this question today with Governor McNutt of the War Manpower Commission, and it was agreed that the Embassy should explore with the Mexican Government the question of an arrangement similar to that of August 4, 1942 to permit the selecting and contracting in Mexico of unskilled workers for employment in the Southwest on railways, in mines and possibly in other industries.

You are requested to inform the Mexican Foreign Office of this Government's desire to negotiate such an arrangement in the understanding that if this meets with that Government's approval a representative of the War Manpower Commission will proceed to Mexico City to take part in the negotiations.

Please expedite reply.⁹⁸

HULL

811.504/1091 : Airgram

The Chargé in Mexico (Bursley) to the Secretary of State

MEXICO CITY, February 18, 1943—11 a. m.

[Received February 20—10 a. m.]

A-377. On the basis of rumors that a report to the President of Mexico⁹⁹ by Ingeniero César Martino, Manager of the National Bank of Agricultural Credit, and particularly a recommendation in the report that an international commission be established to control the recruiting of Mexican laborers, was responsible for the present delay in recruiting, I called on Torres Bodet¹ last night to ask whether such rumors had any foundation. He stated that they had absolutely no

⁹⁶ Neither printed.

⁹⁷ Ambassador Messersmith was in Washington at this time; he left Mexico City on January 15 and returned there March 1.

⁹⁸ In his telegram No. 105, January 29, 1943, the Chargé indicated that the Mexican Government was agreeable in principle (811.504/1043).

⁹⁹ Manuel Avila Camacho.

¹ Mexican Under Secretary for Foreign Affairs.

foundation and that the only difficulty was the one he had previously discussed with me confidentially, namely, the current disorganization in the Department of Labor.

Torres Bodet said that a telegram had been sent to the President of Mexico on February 16 with a view to ascertaining whether it might be possible to expedite the recruiting of agricultural laborers.

Torres Bodet said that in the absence of a reply from the President there was nothing further that he or I could do to facilitate the resumption of recruiting.

BURSLEY

811.504/2032a : Telegram

*The Acting Secretary of State to the Ambassador in Mexico
(Messersmith)*

WASHINGTON, March 10, 1943—9 p. m.

350. I received the visit this afternoon of three of the California congressmen who, acting as delegates of the entire State representation, desired to impress upon us the need of doing everything we could to urge the Mexican Government to facilitate the sending of agricultural laborers to the United States. I shall greatly appreciate it if you will telegraph me what the latest developments in this connection may be and what the prospects are for a satisfactory solution of this question.

WELLES

811.504/2043 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, March 16, 1943—7 p. m.

[Received March 17—1:40 a. m.]

254. Reference Embassy's telegram No. 246 of March 15, 4 p. m.² Recruiting of farm labor was resumed this morning with some 4,000 applicants.

Hewes arrived and made courtesy calls at the Ministry of Labor and the Foreign Office. At the former Ministry there has been a complete turnover in personnel with the appointment of a new Minister and Hewes gathered the impression from the officials whom he met that there is considerable opposition within the Ministry to the method which has so far been employed in the selection of transportation and handling of workers on arrival in the United States.

At the Foreign Office the Acting Chief of the Diplomatic Section stated to Mr. Hewes and an officer of the Embassy that the President

² Not printed.

has given strict instructions to members of the Government to collaborate fully with the United States in efforts to supply as many workers as possible under the terms of the August 4 agreement.

Discussions with representatives of the interested Mexican Government agencies will start Friday evening. The Embassy will be represented and will follow this matter closely.

MESSERSMITH

811.504/2119

The Ambassador in Mexico (Messersmith) to the Under Secretary of State (Welles)

[Extracts]

MEXICO, March 23, 1943.

DEAR SUMNER: I received late Sunday your strictly confidential telegram No. 405, of March 20, 7 p. m.,³ stating that you had had a talk with Commissioner Joseph Eastman⁴ on that date in which he stressed the great urgency of our railways in the Southwest to secure some four or five hundred track workers from Mexico. He stated that from the standpoint of the general war effort it is vitally important that these men be obtained. You asked me to telegraph whether the Mexican Government is willing to render this cooperation and will recruit such labor, especially as our Government is rendering and has rendered so much material assistance to the Railways of Mexico.

I have gone into this detail to try to make it clear that we have had, first of all, to maintain and to salvage the agreement for agricultural labor which we actually have and which is so good and which must remain in effect. In view of the opposition which there was to this agreement from many quarters, and powerful ones, you will quite appreciate that I could not press too strongly for this new agreement for labor other than agricultural. To do so would merely have accentuated the opposition which we had to the agreement for agricultural labor and in my opinion would have made it impossible for us to carry through. In other words, if I had pressed on this new agreement for unskilled workers other than agricultural too strongly, the result would have been that we would have got lip service so far as the agreement for agricultural workers is concerned but no progress in recruiting. Because of the manner in which we have handled it I think we can safely say that the agricultural agreement is now again safe and that we can look forward to steady and continuous recruitment of agricultural laborers to at least 50,000 this year. I need not tell you that it was absolutely essential to follow this prudent course,

³ Not printed.

⁴ Director of the Office of Defense Transportation.

because if the agreement for agricultural labor had fallen down we would have had tremendous criticism from wide sectors in Congress at home, both of this Embassy and of the Department, and of the Mexican Government, etc.

Of course we have constantly kept alive the negotiation of a new agreement for unskilled workers other than agricultural and we have constantly kept this in the discussion, and the Mexicans have constantly told us that they are in agreement to negotiate, but stressed that they wished to get the agricultural agreement in shape and recruitment started before they went at this other too actively. We now hope to make some progress on the other agreement, but we are still not yet ready to have someone come down from the Manpower Commission to talk about this, for it is not adequately advanced here. . . .

I have consistently tried to make it clear at home that while we think we will get such an agreement for unskilled workers other than agricultural in due course, it will not give us in any degree the number of workers which the agricultural program is giving us. I have also tried to make it clear that the urgent situation which confronts our railways in the West cannot be met in the immediate future by such unskilled track workers from Mexico. The railways will have to find the immediate solution for their immediate problem in some other way. I made this adequately clear before I left Washington in February, so if the railways have continued to depend upon the Mexican supply of labor for the solution of their problem it cannot be any responsibility of this Embassy.

You may be sure that we are giving this matter our very careful attention and we are at it every day. It is just one of those things that we cannot work out in a day.

With all good wishes,

Cordially and faithfully yours,

G. S. MESSERSMITH

811.504/2059 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, March 23, 1943—9 p. m.

[Received March 24—1:10 a. m.]

288. With further reference to Department's instructions 2645 of February 18.⁵ Stevens of railway mission⁶ informs me that it would greatly complicate the railway rehabilitation situation as well as the

⁵ Not printed; it asked the Embassy on behalf of the Farm Security Administration to approach the Mexican authorities regarding a guarantee of the return of American railroad equipment if it was sent into Mexico for the transport of agricultural workers (811.504/1071).

⁶ Oliver M. Stevens, member of the United States Railway Mission to Mexico.

railway labor situation were we to bring American equipment or train crews into Mexico to transport laborers recruited in Mexico for the United States. He assures me that he can make necessary arrangements with Mexican railway administration to move all laborers recruited here.

We have on several occasions discussed the matter with the Foreign Office but have had no response. In view of statements by Stevens we shall not press this matter with the Mexican Government.

MESSERSMITH

811.504/2087 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, April 2, 1943—7 p. m.

[Received April 3—3:20 a. m.]

331. Reference Embassy's telegram 288, March 23, 9 p. m., 1943. National Railways today informed Brown of Farm Security Administration that with railway equipment presently assigned to movement of agricultural laborers to the United States it will be possible under speedup now provided for to move 7000 workers monthly to the United States. This would involve sending five train loads of 750 workers each to Ciudad Juarez each month and 650 workers to Guadalajara five times each month.

Bursley has discussed this with Stevens of railway mission who states that at least this rate should be attained and that after April 10 he believes further increase would be practicable especially in view of probable availability of additional equipment after that date. Stevens again very strongly emphasized the inadvisability of sending American railway equipment to Mexico for the movement of laborers.

Representative of War Manpower Commission ⁷ arrived here today. We shall of course know nothing of number of unskilled non-agricultural laborers to be moved until the outcome of impending conversations with authorities of Mexican Government on this subject have developed.

MESSERSMITH

811.504/2114 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, April 13, 1943—7 p. m.

[Received 10:45 p. m.]

368. The Mexican Government informed the Embassy this afternoon that it has agreed in principle to the contracting of 6000 non-

⁷ Arthur W. Motley, Chief of the Employment Office, Service Division, Bureau of Placements.

agricultural workers in Mexico for work in the United States during 1943. The Mexican Government would appreciate learning at the earliest possible moment the month by month breakdown of needs during 1943 for these 6000. Please inform Motley of War Manpower of this message.

MESSERSMITH

811.504/2143

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 9308

MÉXICO, D. F., April 15, 1943.

[Received April 23.]

SIR: I have the honor to furnish the Department with some observations which are the result of compiling the figures available to the Embassy concerning the recruiting of agricultural workers for work in the United States in order to show the rather urgent need for further figures on estimated needs of agricultural workers for 1943, followed closely by a certification of these needs.

The Department's telegram No. 1 of January 1, 1 p. m., estimated needs during 1943 at 26,200. Up to the present date the Embassy has received certifications of needs covering 23,200. There have been transported to the United States up to and including today 11,491 workers. This leaves a balance of 14,709 more workers to be recruited and transported in order to meet the total estimate of 26,200 for 1943. At the present time recruiting and shipping of workers are being carried forward at the rate of 1,400 per week. This means that within ten weeks or by the end of June there will have been recruited and transported to the United States all those workers covered by the estimated needs.

The Mexican Government has stated that it will be willing to consider the recruiting of agricultural workers to the over-all amount of 50,000 during 1943. It has made it clear, however, that it cannot consider any larger number because of the effect this might have on Mexican domestic economy and because of possible political repercussions. This should be borne in mind in any revision which is made of estimated needs of workers from Mexico during this year. On the one hand we may not expect more than 50,000 workers from Mexico and on the other hand we should consider that it would be unfortunate to require a lesser number of workers because this would show that there is not the urgent need in the United States for these workers which is a matter we have continually kept before the Mexican authorities.

Since the Department's telegram of January 1, referred to above, stated that it would not be necessary to send workers to the United

States during June or July unless further certifications are received, the recruiting of agricultural labor will automatically be suspended during July. It is the view of the Embassy that it would be very unfortunate if recruiting had to stop for any reason whatsoever because of the many difficulties, mostly administrative, which are involved in getting it started again. Furthermore, we have continued to impress the Mexican Government with the urgent need for labor in the United States and therefore the Mexican Government can hardly be expected to understand why recruiting should stop because of a lack of certifications of need.

In the almost daily conversations the Embassy has had with officials of the Mexican Government on the general subject of recruiting of laborers the Mexicans have pointed out the absolute necessity for them to have as accurate an approximation as possible of the estimated needs of both agricultural and non-agricultural labor expected from Mexico during this year for the Mexicans themselves are responsible for undertaking to have a supply of such laborers available for recruiting and they must of necessity gear the supply to the demand.

It would be appreciated if each certification of need sent to the Embassy for transmission to the Mexican Government could be accompanied by a statement that the number of workers in each case is included within the over-all estimate of needs for 1943. The Foreign Office asks this question each time a certification is notified to it.

I therefore urge the Department to convey the contents of this despatch to the appropriate Departments and Agencies of the Government in order that the Embassy may be enabled to supply the Mexican Government with the information requested.

Respectfully yours,

For the Ambassador:
HERBERT S. BURSLEY
Counselor of Embassy

811.504/2142

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 9313

México, D. F., April 15, 1943.

[Received April 23.]

SIR: I have the honor to inform the Department that there has been brought to my attention in connection with the transportation of Mexican workers for work in the United States a proposal whereby such workers would be transported in box cars.

At the present time such labor is being accommodated in first and second class day coaches. However, the coaches which have been made available for this purpose are shuttled constantly between Mexico City and the border with no time out for repairs. If in

the future it is desirable to transport more workers regularly, it will be extremely difficult, I am reliably informed, to find any further first or second class coaches.

I realize that the above conflicts with the opinion in the Embassy's telegram No. 288 of March 23, 9 p. m. However, Stevens' original estimate that all necessary rail equipment could be made available to move these workers, should be revised because a closer examination of the situation does not warrant such optimism. The Embassy is watching this matter closely and, bearing in mind the circumstances explained in its despatch no. 9308 of April 15, 1943, is prepared to press the Mexican authorities for more equipment or permission to enter American equipment whenever that seems to be advisable. In this connection the help of Mr. Stevens will be invaluable.

In conversations where the matter of box cars has come up, I have made it clearly understood that I do not want the suggestion for the use of this type of transportation to come from any source within our Government. Frankly I see no objection to the use of box cars if the Mexican Government should propose it as an expedient and as a means of moving the labor at a future time. The matter is merely mentioned to the Department for its information in order that it may know of the stand taken by the Embassy in this regard.

Respectfully yours,

For the Ambassador:
HERBERT S. BURSLEY
Counselor of Embassy

811.504/2167

*Memorandum by Mr. W. G. MacLean of the Division of the American Republics*⁸

[WASHINGTON,] April 20, 1943.

Of interest in connection with the continuing movement of Mexican agricultural workers to the United States under the agreement of August 4, 1942 is the following article appearing in the March 31, 1943 issue of *Mexico News*, official press bulletin of the Mexican Foreign Office:

"We have not received a single complaint up to now. But it pleases me to answer, declared licenciado Padilla,⁹ that of all the reports that have reached this Ministry as well as those that have been graciously rendered by the Manager of the Agricultural Credit Bank, ingeniero Cesar Martino, it is made clear that the Mexican laborers who are now in the United States are being treated most justly and they are receiv-

⁸ Addressed to the Assistant Chief of the Division of the American Republics (McGurk) and the Assistant Adviser on International Economic Affairs (Muliken).

⁹ Luis Padilla Nervo, Oficial Mayor of the Ministry of Labor.

ing every attention. The officials of the Public Administration who participate in the management of these laborers, demonstrate on every occasion the highest spirit of consideration for our nationals. In this as in all other matters that the two countries, Mexico and the United States attend, there is a sentiment of cordial cooperation."

811.504/2163 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, April 26, 1943—6 p. m.

[Received 9:24 p. m.]

408. Reference Department's telegram no. 630 of April 24, 6 p. m.¹⁰ It is hoped that Agriculture understands the consequences of refusal to accept the Mexican proposal regarding lodging and subsistence. It came as a complete surprise to the Mexicans to learn during the present negotiations that Mexican workers are not receiving lodging and subsistence during the 25% period but are receiving these minimum comforts only when needy and on a welfare basis. Therefore the present Mexican proposal merely confirms what the Mexicans state was originally intended as the meaning of this guaranty under the original wording of the agreement. The Mexican argument designed to rebut our contention that such treatment of Mexican workers amounts to discrimination against domestic workers is as follows: (1). The American worker usually has his family who can take care of him during a period when he is not earning wages, the Mexican has no such recourse. (2). The American worker may change his employment freely when he finds he can earn more wages somewhere else. The Mexican may not change his employment during the period of his contract without violating the contract. The Mexicans also refer to the possibility that the Farm Security Administration may not continue to administer this program after June 30; with subsistence only available to Mexican workers where needed and on a grant basis, the Mexicans insist on adequate guaranties that whatever agency administers this program after June 30 will be obliged to furnish lodging and subsistence as a part of the guarantee to the Mexican worker.

I believe therefore if we return with a flat rejection simply on the basis of our present policy we may be fairly certain the present negotiations will collapse. We have reached complete agreement on all other phases of our negotiations on the agricultural and non-agricultural agreements. As I have repeatedly pointed out to the Department these are very delicate matters and I believe our refusal to

¹⁰ Not printed; it conveyed the rejection by the Department of Agriculture of any change in the existing practice of providing food and lodging to the migratory workers (811.504/2162a).

accede to this most reasonable proposal of the Mexicans will result in a stoppage of recruiting and an imputing [*impugning*] of our good faith in the entire undertaking. I should emphasize that it is probable that difficulty over this aspect of agricultural agreement may prejudice non-agricultural agreement. We had expected to sign both this week.

MESSERSMITH

811.504/2177 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, April 28, 1943—9 p. m.

[Received April 29—5 a. m.]

416. Reference McGurk's letter to McGregor¹¹ of April 27 and Embassy's airgram no. 914, February [*April*] 23, 11 a. m., 1943.¹² Hewes departed Mexico City for conference in Salt Lake City today. Matter was discussed with him prior to departure and this afternoon with Brown local FSA¹³ representative. Neither Hewes nor Brown object to using present staff to recruit non-agricultural labor but the situation described in airgram under reference should be borne in mind. Total train capacity as Board worked out for May is at present 7000. Total recruiting possibilities on basis of 24-day month and 500 per day is 12,000. Taking care of Agriculture's requirements of 7000 workers during May a balance of 5000 non-Agricultural workers can be recruited with present recruiting force during May.

The Embassy is satisfied that the Mexican Railways have arranged to place maximum equipment at disposition FSA during May. Therefore if War Manpower branch expects 5000 during May and does not desire to interrupt scheduled flow of agricultural workers it should arrange with Office of Defense Transportation to furnish American rolling stock for transportation of industrial workers. Neither the Mexican Government nor the Embassy has any objection to the employment of American railroad equipment but Mr. Tello¹⁴ of Foreign Office explained this evening that the Mexican Government desires a complete outline of the schedule under which such U.S. equipment would be moved into and out of Mexico. At such time as this information is made available the Embassy will endeavor to secure from the Mexican Government the undertaking mentioned in the Department's airmail instruction no. 2645 of February 18, 1943.¹⁵

MESSERSMITH

¹¹ Robert G. McGregor, Jr., Secretary of Embassy.

¹² Neither printed.

¹³ Farm Security Administration.

¹⁴ Manuel Tello, Chief of the Diplomatic Section of the Mexican Ministry for Foreign Affairs.

¹⁵ Not printed, but see footnote 5, p. 541.

811.504/2184 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, April 30, 1943—8 p. m.

[Received 11:55 p. m.]

425. Reference Department's airmail instruction No. 2975 of April 8, 1943.¹⁶ Exchange of notes covering changes in the agricultural labor agreement of August 4, 1942 agreed upon by both Governments was made today effective April 26, 1943. Publicity will be given to this exchange by means of a communiqué to the Mexican press drafted by the Foreign Office and which will be handed to the press here at 8 p. m., April 30 for release in press May 1, 1943.

Since the changes made in the basic agreement will apply not only to labor to be recruited but to all Mexican workers who have been recruited since the inception program, it is respectfully suggested that the Department may desire to arrange to have some publicity given to this exchange of notes thereby reaching some persons now employing Mexican agricultural labor who will be affected by the changes. An item of interest which might find its way into such a notice to the press might be based upon the fact that up to today's date approximately 15,000 Mexican workers have reached the United States and are engaged in agricultural work. 7,000 more are expected to move north during May and a total of 50,000 may be sent during 1943.

It would be appreciated if whatever notification is given to the press in the United States¹⁷ is telegraphed to the Embassy for its information.

MESSERSMITH

[For text of agreement between the United States and Mexico revising the agreement of August 4, 1942, respecting the temporary migration of Mexican agricultural workers to the United States, effected by an exchange of notes signed at Mexico City, April 26, 1943, see Department of State Executive Agreement Series No. 351, or 57 Stat. (pt. 2) 1152.]

811.504/2204

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 9785

MÉXICO, D. F., April 30, 1943.

[Received May 6.]

SIR: I have the honor to refer to the Department's airmail instruction No. 3062 of April 20, 1943¹⁸ (File: 811.504/2116) authorizing this

¹⁶ Not printed.

¹⁷ For statement released to the press on May 1, see Department of State *Bulletin*, May 1, 1943, p. 376.

¹⁸ Not printed; it transmitted a letter and draft agreement from Paul V. McNutt.

Embassy to proceed with an exchange of notes placing into effect an agreement whereby Mexican non-agricultural laborers may be contracted to work in the United States for certain specified periods and to report that I exchanged notes with Licenciado Ezequiel Padilla, Mexican Minister of Foreign Affairs, on April 30, 1943. These notes make the agreement effective April 29, 1943 and accordingly recruiting of this type of labor may begin as soon as certification is received and the machinery therefor is set up here. I enclose a copy of my note¹⁹ and the text in Spanish of the Foreign Minister's note will be sent by a later despatch.

I feel that the Embassy was particularly fortunate in having had the assistance of Mr. Arthur W. Motley of the War Manpower Commission who was here for ten days early this month in order to take part in the negotiations which led to the successful conclusion of the agreement. Aside from Mr. Motley and a representative of the Embassy the following assisted at the discussions: Sr. Manuel Tello, Oficial Mayor of the Ministry of Foreign Affairs; Licenciado Padilla Nervo, Oficial Mayor of the Ministry of Labor; Licenciado Luis [Ruis] Cortinas, Oficial Mayor of the Ministry of Gobernación and Mr. Harry F. Brown, local representative of the Farm Security Administration whose experience in the recruiting of agricultural labor under the Agreement of August 4, 1942 was found most helpful.

The Mexican Government has given its assent to the recruiting of up to 6,000 non-agricultural laborers under this present agreement. It is possible that we may expect more when that number has been contracted. At the present time and until further notice such labor will be recruited in Mexico City. The Mexican officials are extremely reluctant to have recruiting take place elsewhere in the Republic largely because the recruiting process unless carefully scrutinized and controlled can easily be exploited by unauthorized persons seeking personal gain at the expense of the Mexican worker. Furthermore, the Mexican Government lacks competent officials who can supervise recruiting outside of Mexico City.

As I have stressed to the Department it will be necessary for the War Manpower Commission and the Department of Agriculture in Washington to agree on the important question as to what proportion of transportation space is to be allotted to agricultural workers and to non-agricultural workers, since both types of workers will be recruited in Mexico City and will proceed from here to the border. As soon as this aspect has been determined upon it will be a simple matter to arrange a recruiting schedule to synchronize with the transportation schedule.

It is, therefore, suggested that the Department may desire to make a copy of this despatch and its enclosure available to the War Man-

¹⁹ Not printed.

power Commission. Copies of the individual work contract as agreed upon by the two Governments will be transmitted at a later date.²⁰

Respectfully yours,

G. S. MESSERSMITH

[For text of agreement between the United States and Mexico respecting the temporary migration of Mexican nonagricultural workers to the United States, effected by an exchange of notes signed at Mexico City, April 29, 1943, see Department of State Executive Agreement Series No. 376, or 57 Stat. (pt. 2) 1353.]

811.504/2202

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 9801

MÉXICO, D. F., April 30, 1943.

[Received May 6.]

SIR: I have the honor to refer to the Embassy's despatch No. 9788 of April 30, 1943²¹ referring to an exchange of notes between the Ambassador and the Mexican Foreign Minister effectuating certain changes in the agreement of August 4, 1942 for the recruiting of Mexican agricultural labor for work in the United States and to enclose in this connection a copy of a note I addressed under date of April 29, 1943 to the Mexican Foreign Minister²¹ stating that an amount not exceeding \$130.00 would be paid by the United States Government to cover funeral and burial expenses of Mexican workers who, while under contract, die in the United States from natural causes not connected with their employment.

Respectfully yours,

G. S. MESSERSMITH

811.504/2233 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, May 14, 1943—7 p. m.

[Received May 15—1:23 a. m.]

473. Tello informed Bursley this evening that Mexican Government was prepared to expedite recruiting of labor for the United States if that would be of assistance to us. He also said that he believed the Mexican Government in consonance with its desire to cooperate with us would, if necessary, permit the recruiting under the agreement of a greater number of workers than is now envisaged. He went on to say that the impression prevails generally throughout

²⁰ Not printed; transmitted to the Department by the Ambassador in Mexico in his despatch No. 9894, May 4, 1943.

²¹ Not printed.

the Mexican Government that if indiscriminate recruiting such as that recently begun along the border, particularly in the vicinity of Juarez, were to continue, the existing agreement would come to an end for the reasons that (1) it would have no significance and (2) there would be no point in the Mexican Government continuing the present expenditure of money and effort involved in the examination and recruiting of workers.

Tello did not indicate that his statements were in confidence but I do not think they should be used except in United States Government circles. Publicity of the statements would do no good and might cause friction over a matter which is already sufficiently difficult and delicate.

In my opinion the feeling of the Mexican Government is considerably stronger than it permits itself to express at this juncture when it still hopes we can solve the problem. I do not think there is the slightest doubt that if through domestic laws and regulations we undermine an international agreement such as that permitting us to recruit labor here under conditions, the Mexican Government will be justifiably indignant and will denounce the agreement. Moreover there is no doubt that the Mexican Government will intensify the measures which we understand from border sources have already been introduced to prevent the exodus of laborers whose departure from Mexico is not authorized. If the advocates of breaking down border controls persist in their present policy and actions they will defeat their own purposes because of the extreme likelihood that the number of laborers from Mexico to the United States will be reduced to a mere trickle regardless of whether high or low wages are paid.

I cannot too strongly urge upon the Department the great necessity for immediate drastic action to prevent what appears to be an abuse. Apart from the fact that we shall not be able to obtain labor which we allegedly seriously need there is involved the highly important factor of the good faith of the United States towards Mexico.

We have information from border sources that both Nogales and El Paso are now "wide open".

It will be greatly appreciated if the Department will make every effort to remedy this situation as soon as possible and keep us promptly and fully informed.

MESSERSMITH

811.504/2233

*The Assistant Chief of the Division of the American Republics
(McGurk) to the Ambassador in Mexico (Messersmith)*

WASHINGTON, May 15, 1943.

DEAR MR. AMBASSADOR: Shortly after our telephone conversation this afternoon I received a copy of your telegram no. 473 of May 14,

regarding the situation which has developed under the regulations of section 5 (g) of Public Law 45.²²

I immediately communicated the contents of your telegram to an official of the Immigration and Naturalization Service with whom we have been dealing on this matter, and he said in comment that we should not think for a moment that Immigration is not in entire accord with our point of view on this matter. He said that he believed the order given to border immigration officials yesterday, May 14, to suspend any documentation under the afore-mentioned regulations took care of the situation for the time being, and that the order would not be modified until word was received from Mr. Travers of VD²³ through the Embassy. It is apparent that Immigration now realizes that the regulations published on May 11²⁴ were not prepared with due consideration and I believe that Immigration now sees the necessity of modifying them in some way.

I shall keep you informed of any new developments.

With all good wishes,

Sincerely yours,

J. F. MCGURK

811.504/2261½ : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, May 19, 1943—7 p. m.

[Received May 20—1:15 a. m.]

491. The Undersecretary of Foreign Relations²⁵ has just informed me that the Mexican Ambassador in Washington²⁶ has been instructed to call on Undersecretary Welles without delay and to state that the movement of Mexicans across the border and who are being admitted by our immigration officials has reached such proportions that the Ministry of Gobernación is considering closing the border. The Mexican Ambassador was instructed to say to Undersecretary Welles that this movement of labor was contrary to the letter and spirit of the agreements which have been entered into through the exchange of notes between our two Governments and if this movement was permitted to continue the Mexican Government would unhappily be under the necessity of denouncing the two agreements and closing the border.

²² Public Law 45, (57 Stat. 70) appropriated \$26,100,000, a part of which was to be apportioned among the needy states, for recruiting, training, transporting, feeding, and various other functions pertaining to the expansion of the labor supply in the United States.

²³ Howard Travers, Chief of the Visa Division.

²⁴ 8 *Federal Register* 6013.

²⁵ Jaime Torres Bodet.

²⁶ Francisco Castillo Nájera.

I told the Undersecretary how much value my Government placed on these agreements and how much it wished them to remain in force and the Undersecretary replied that this same desire was shared by his Government but that the Mexican Government would be forced to take the foregoing action if the movement of laborers was not restricted to the terms of the two agreements which we have entered into.

As the Department is aware I have consistently indicated that this was the only attitude which the Mexican Government would be able to take and there is no doubt that if this movement of workers is not stopped forthwith outside of the agreements, the agreements will be shortly denounced by the Mexican Government and the border will be closed to the movement of Mexican workers to the United States. The Mexican Government does not feel that it can take the risks involved to our relationships through the movement of workers except under these agreements, as the inevitable exploitation of workers outside of the agreements would force the Government to such action.

MESSERSMITH

811.504/2293a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, May 26, 1943—noon.

848. Reference telephone conversation May 24, 1943, between Mr. Long²⁷ and Mr. Bursley. At a further meeting today on the securing of agricultural workers from Mexico, the representative of the Immigration Service stated that in view of the exceptions taken by the Mexican Government to the admission of Mexican agricultural workers on an individual basis under Public Law 45, the Attorney General would issue appropriate instructions to limit the movement of Mexican workers to the United States to those covered by existing agreements.

The representatives of the War Food Administration then stressed the urgency of immediately increasing the flow of workers under the agricultural agreement, and asked the Department to approach the Mexican Government to request:

a. That a selecting and contracting center be opened in Guadalajara as soon as possible to which the contracting of railroad workers would be transferred, and with a view of concentrating the transportation of such workers to the Southern Pacific Railroad, leaving the facilities of the National Railways available for agricultural workers;

b. That facilities in Mexico City be increased especially as to transportation to permit a more rapid flow of agricultural workers to the United States;

²⁷ Breckinridge Long, Assistant Secretary of State.

c. That agreement in principle be given to increasing the 1943 estimate of 50,000 Mexican agricultural workers by 25,000;

d. That the facilities for contracting at Guadalajara be dedicated to the supplying of agricultural workers whenever those facilities are not engaged in the contracting of non-agricultural workers.

In regard to items *a* and *d* above, it is the understanding of the Department that the contracting of the 6,000 non-agricultural workers agreed upon will be completed on June 9, probably before a selecting center can be set up at Guadalajara. However, the War Manpower Commission has informally stated that it is preparing to request the Department to transmit to the Mexican Government a request for 2,000 more railroad workers and 1,000 unskilled non-ferrous mine workers. The War Food Administration has stated that it will supervise the selecting of workers under both agreements at Guadalajara as is now the case in Mexico City.

You are authorized to inform the Mexican Foreign Office of the above-mentioned assurance given by the Department of Justice, and at the same time to present the requests made by the War Food Administration on an urgent basis. Please keep the Department informed by telegram.

HULL

811.504/2310a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, May 28, 1943.

867. Justice has telegraphed the following instruction district directors of immigration, "Effective immediately, nationals of Mexico are not to be admitted as agricultural workers under the provisions of Public Law 45 and Regulations 8C4115 unless they present written consent of the Federal Government of Mexico to emigrate for that purpose."

HULL

811.504/2345

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 10662

MÉXICO, D. F., June 8, 1943.

[Received June 11.]

SIR: I have the honor to refer to the Department's airmail instruction No. 3423 of June 5, 1943²⁸ stating that a number of industrial

²⁸ Not printed.

employers of relatively small groups of workers in the United States are continually approaching the Department and other interested agencies with a view to securing workers from Mexico. It is added that the Department understands that any movement of Mexican workers to the United States outside of the work Agreements between the two Governments is opposed by the Mexican Government. The Embassy's comments concerning such an understanding are desired.

The Mexican Government has made it clear both in discussions leading up to the Agreements and in connection with the implementation of the Agreements that it is firmly and unalterably opposed to Mexican workers proceeding to the United States except under the strict terms of the Agreements. The Mexican Government recalls most vividly the situation which was allowed to develop during the last war when thousands of Mexican workers crossed into the United States without any guarantees. For many years following the war the Mexican Government was forced to defray the cost of repatriation of these citizens who, when the market no longer existed in the United States, became unemployed, impoverished, and destitute. The Mexican Government has no intention of allowing a similar situation to develop and, therefore, would naturally be opposed to any situation which did not foresee the granting of full guarantees to Mexican workers.

At the time when negotiations for the non-agricultural Agreement were started it was agreed by those participating in the discussions that it would be best to so phrase the over-all agreement as to make it applicable to various types of non-agricultural workers. Although at that time the urgent demand was for track workers, it was none the less made clear to the Mexican Government that there might be a need for non-ferrous mine workers working in open pits. However, the stress was always laid on the fact that unskilled labor was desired. As the Department is aware the 6,000 non-agricultural workers, the need for which has been certified, will have been contracted by June 15 and the Embassy is anxiously awaiting further certifications in order that there may be no gap in recruiting of this type of labor. The Department has already informed the Embassy that one of the certifications which will be sent shortly is for 1,000 non-ferrous mine workers. Since the Mexican Government has not so far formally agreed to sending mine workers it will be necessary to secure its assent. The Embassy, therefore, feels that the matter mentioned in the Department's instruction No. 3423 under acknowledgment of the sending of workers outside the Agreements for certain specified industrial work is better left unmentioned so far as the Mexican Govern-

ment is concerned or at least until the Embassy has obtained its consent to the recruiting of mine workers.

Respectfully yours,

For the Ambassador:
HERBERT S. BURSLEY
Counselor of Embassy

811.504/2343

*Memorandum of Telephone Conversation, by Mr. W. G. MacLean of
the Division of the American Republics*

[WASHINGTON,] June 24, 1943.

Mr. McGregor telephoned at 5:40 to say the question of authorization by the Mexican Government for the contracting of additional non-agricultural workers was still being held up. He said that today was the President's birthday and that he left town yesterday and would not be back until tomorrow and that the Minister of Labor had therefore not been able to see him today. Mr. McGregor said that the Minister of Labor thought that since the subject of the 6,000 non-agricultural workers already contracted had been cleared with the President, the request for an additional 15,000 should also be cleared with him.

Mr. McGregor said that he was following the matter very closely and that he would telephone the minute he had definite word on the subject. I thanked him for calling and said that War Manpower and other interested agencies were calling the Department several times a day on this subject and that his call and assurance were especially helpful.

811.504/2400

*Memorandum by Mr. W. G. MacLean of the Division of the American
Republics*²⁹

[WASHINGTON,] June 30, 1943.

In the underlying despatch no. 10915 of June 21, 1943,³⁰ the Embassy reports in paragraph 3 that the Mexican Government has issued orders to its Consuls in Texas that no Mexican agricultural workers should be sent into that State under existing agreements because of the prevalence of discrimination there against Mexican residents.

²⁹ Addressed to the Chief of the Division of the American Republics (Bonsal), the Assistant Chief of that Division (McGurk), and the Assistant Adviser on International Economic Affairs (Mulliken).

³⁰ Not printed.

This situation has been rumored for some time but is only now confirmed in connection with special efforts made by Judge Briggs³¹ of Texas in Mexico City to arrange for workers for Texas. Foreign Minister Padilla said that if the situation with respect to discrimination in Texas improved, he would be glad to have the attitude of the Mexican Government reconsidered.

Judge Briggs told the Mexican Government and our Embassy that he would take the matter up with Governor Stevenson.³² One step suggested by Judge Briggs was the writing of a letter on the subject by Governor Stevenson to the appropriate Mexican officials, and a draft copy thereof was prepared with the counsel of the Embassy.

A step taken by the Governor, at the insistence of Judge Briggs, according to airgram A-57 of June 26 from Consul General Blocker,³³ was a proclamation on the Good Neighbor Policy dated June 25 for publication in all Texas papers. Attached is a clipping from *La Prensa* of San Antonio of June 27 which contains the Governor's proclamation, which turns out to be the resolution passed by the Texas legislature and signed by the Governor on May 6, last, and which was the subject of RA-Me's³⁴ memorandum of June 26, 1943, a copy of which is attached.³⁵

The Ambassador invites attention to the fact that so far no Mexican agricultural workers have been certified for Texas, and that such certification if made from now on will raise this worker-racial discrimination question in concrete form. It is therefore interesting to note that Judge Briggs approached the War Food Administration yesterday to take up the question of securing workers.

811.504/2447

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 11251

México, D. F., July 6, 1943.

[Received July 12.]

SIR: I have the honor to refer to the Department's airmail instruction No. 3602 of June 29, 1943³⁶ setting forth the interest of certain parties in the United States in facilitating the entry into the United States of the families of those Mexican agricultural laborers who were admitted during May under Public Law 45, and instructing this Embassy to ascertain from the Mexican Government whether it would

³¹ Judge Cullen Briggs, Nueces County, Texas.

³² Governor Coke R. Stevenson of Texas.

³³ Airgram not printed.

³⁴ Mexican section of the Division of the American Republics.

³⁵ Not found in Department files.

³⁶ Not printed.

interpose any objection to the families of these men joining them in the United States.

This matter was discussed with the Oficial Mayor of the Ministry of Foreign Affairs and under date of July 1, 1943 he addressed a letter to a member of the Embassy staff in which he stated that the Mexican Government could not permit families of these men to leave Mexico because the Mexican Government is under the necessity of refusing similar permission to the families of those workers who proceed by contract under the Agreement for agricultural workers dated August 4, 1942. Mr. Tello added that such movement of families would be deemed contrary to the spirit of the Agreements for which the Farm Security Administration and the War Manpower Commission are responsible.

A copy and copy in translation of Mr. Tello's note is enclosed for the Department's information.³⁷

Respectfully yours,

For the Ambassador:
ROBERT G. MCGREGOR, JR.
Secretary of Embassy

811.504/2401

*Memorandum of Conversation, by Mr. W. G. MacLean of the Division
of the American Republics*

[WASHINGTON,] July 7, 1943.

Participants: Judge Cullen Briggs of Nueces County, Texas.
Messrs. McGurk and MacLean, RA.

Judge Briggs came in late yesterday afternoon at the suggestion of Congressman Kleberg³⁸ and outlined the efforts he had made in Mexico City, San Antonio and Austin toward smoothing the way for Texas to secure agricultural workers from Mexico under the agreement of August 4, 1942. He said that the Governor of Texas had issued a proclamation based on the concurrent resolution of the Texas Legislature, proclaiming the Good Neighbor Policy as the public policy of the State of Texas. He stated that the Governor is willing to take further steps to combat racial discrimination in Texas to satisfy the Mexican Government, which was opposing the movement of workers to Texas because of its belief that discrimination against Mexicans there was excessive.

Judge Briggs said that in Washington he had taken the question up with officials of the War Food Administration and others and that two things were now being done in Texas looking toward an early formal

³⁷ Not printed.

³⁸ Richard M. Kleberg of Texas.

request for Mexican workers: (1) the Extension Service in Texas was being asked to certify the shortage of workers in Texas and the need to bring them in from Mexico, and (2) a fund was being raised by interested growers which would be used in combating racial discrimination, if necessary through the courts. He stated that it was his opinion that the Concurrent Resolution of May 7 and the Governor's proclamation of June 25 would support civil cases on this subject.

Judge Briggs impressed the officers of the Department with his sincerity and his determination both to get workers from Mexico for Texas and to see that racial discrimination was removed as an obstacle to their coming.

Mr. McGurk reviewed for Judge Briggs the development of the agreements to secure workers from Mexico, emphasizing the insistence of the Mexican Government on certain of the conditions contained therein which were held necessary for the protection of the workers and to avoid abuses which might adversely affect friendly relations between the two countries.

S11.504/2453

*Memorandum of Conversation, by Mr. W. G. MacLean of the Division
of the American Republics*

[WASHINGTON,] July 16, 1943.

I discussed the last paragraph of Ambassador Messersmith's telegram no. 706 of July 16 [15], 1943,³⁹ with Mr. Stephen Wood of the Bureau of Placement of the War Manpower Commission, Mr. Arthur W. Motley, Chief of that Division, being at the moment in California.

Mr. Wood stated that he had personally been in the Southwest several weeks ago on this question and that he had been assured by War Manpower's regional representative and by a representative of Mine Management that discriminatory practices against Mexicans had been practically eliminated. He added that they were also determined to eliminate any discriminatory practices the moment they might be brought to light. Mr. Wood authorized us to quote the War Manpower Commission as follows: "You can be assured that no wage differentials exist, and that if any are discovered in practice no Mexican workers will be assigned to those mines."

Mr. Wood authorized us to renew the offer for Mr. Motley to meet Señor Padilla Nervo, Oficial Mayor of the Mexican Department of Labor, at Phoenix, Arizona, to go over the question with him in the presence of the local Labor Management Committee for that region.

³⁹ Not printed.

Mr. Motley, as stated above, is now in San Francisco, California, and can go to Phoenix at a moment's notice.

Mr. Wood said that 1,500 workers for Arizona and 500 for New Mexico would meet the immediate critical need for workers and that the War Manpower Commission had in mind that they would be unskilled, that is, pick and shovel workers.

811.504 Mexico/3

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 11641

MÉXICO, D. F., July 20, 1943.

[Received July 24.]

SIR: I have the honor to refer to the strictly confidential telegram No. 968 of June 16, 8 p.m.⁴⁰ stating that the War Manpower Commission had informed the Department that the Attorney General approved the certification for 2,051 non-ferrous mine workers and 9,360 track workers from Mexico to be recruited and transported in accordance with the Agreement of April 29, 1943.

The Department has been informed orally (reference the telephone call of the Counselor of the Embassy to Mr. J. F. McGurk of the Department) that the Mexican Government has decided that it would be unwise to recruit labor for the purpose of work in the mining industry in the United States. I am enclosing for the Department's records a copy and copy in translation of note no. 351 of July 17, 1943⁴¹ from the Foreign Office to this effect.

Respectfully yours,

For the Ambassador:
HERBERT S. BURSLEY
Counselor of Embassy

811.504 Mexico/11

The Ambassador in Mexico (Messersmith) to the Assistant Chief of the Division of the American Republics (McGurk)

MÉXICO, D. F., July 20, 1943.

DEAR JOE: The appended very long letter of July 19th,⁴² on the situation with regard to workers for Texas, was dictated on Sunday. On Monday, the 19th, Padilla asked me to the Foreign Office to talk over a number of things, and he had before him the letter from the Governor of Texas addressed to him on this labor matter and dis-

⁴⁰ Not printed.

⁴¹ Translated not printed.

⁴² Not found in Department files.

criminations.⁴³ Padilla said that Torres Bodet had informed him fully concerning the conversation which we had had a day or two before, and which is covered in my letter of July 19 hereto appended. Padilla said that he was in thorough agreement, of course, with what Torres Bodet had said concerning the difficulty of Mexico changing her position with regard to workers going to Texas. He also knew my thorough understanding of all the factors involved in the problem here and at home. It was unfortunate that this question of workers had arisen at this time when it was so difficult for Mexico to change her position but he had been giving the matter very careful thought since a long conversation which we had had some ten days ago, and he was very much influenced by the thought that failure of Mexico to let workers go might bring about a reaction of public opinion in Texas which would delay the solution of these problems of discriminations. He said that if they really needed these workers in Texas, and the Mexican Government did not let them go, and in this way discriminated against Texas, no matter what good reason she had for doing so, and it had such good reason, the refusal of Mexico could easily create a very bad popular opinion and reaction in Texas both among Government officials and among the people and thus bring about an exaggeration and perhaps an increase in discriminations.

He said that the interest of the Mexican Government, like ours, was to eliminate these discriminations as rapidly as possible. He thought that [*there*] were many things that the State Government, and officials, and people of Texas could do to remove these discriminations, which they had not done. He realized, however, their problem and he realized that there was good will among State officials and responsible people in Texas to remedy the situation which could not be done in a day. He thought, therefore, that neither Government should do anything to, in any way, exaggerate this situation or to give possible rise to renewed and increased discriminations by thoughtless and more or less irresponsible people whom it was difficult to control.

I can only tell you that the remarks of Padilla, which I have given only briefly, have even increased my opinion of him as a statesman. He is really a statesman and a man of great understanding and, in addition to that, is sincere in his desire to solve these problems. I told Padilla that while I had not mentioned the phase of the matter which he had just gone into that in my opinion it was the most important factor of all. I told him that I thought the best purposes of both Governments would be served by removing the ban on Texas—without regard as to whether there was any immediate need for the

⁴³ For the letter from Governor Coke R. Stevenson to Minister Padilla, dated July 12, and the latter's reply of July 20, see Mexico, *Memoria de la Secretaria de Relaciones Exteriores*, 1942-1943, pp. 507-512.

labor or not. I said that I had not mentioned this phase either to him or to Torres Bodet, but that it was the one factor in the Mexican order which really disturbed me, because if it were generally known in Texas that there is this ban, and Mexico persisted in it in spite of a real or apparent need for Mexican labor to save the cotton crop, it could easily result in a wave of resentment in Texas and interfere with the sound program which the State Government and sound people in Texas were trying to carry through. Padilla said that he was very much inclined to remove the ban and to run the risks of the local difficulties they might have here. He said he would talk with the President. With his support of his point of view he was sure that he could carry it over successfully here in Mexico. He said he would let me know as soon as he had talked with the President.

I wanted to get this additional word to you without delay. If the Mexicans do remove the ban, then we must make the most of it and will have to get some generous reactions in Texas, for it will really be a statesman-like act and a generous act on the part of Mexico, the importance of which, it is necessary that the War Manpower Commission, as well as the people of Texas, realize fully.

With all good wishes [etc.]

G. S. MESSERSMITH

811.504 Mexico/23a

The Assistant Secretary of State (Acheson) to the Director of the Office of War Mobilization (Byrnes)

WASHINGTON, July 24, 1943.

MY DEAR JUSTICE BYRNES: Following our conversation of July 22 regarding the urgent need for hard rock miners in the United States, I telegraphed Ambassador Messersmith in Mexico City asking him whether a personal appeal from President Roosevelt to the President of Mexico might produce a change in the negative attitude of the Mexican Government regarding this matter.

Ambassador Messersmith has now informed me that while he is fully conscious of the emergency with which you were confronted, it is his considered opinion that it would be utterly impossible for the President of Mexico to alter the position which he has previously taken in this matter. The Ambassador feels that an appeal of the type contemplated would be most embarrassing to the President since he would be obliged to reject it. The Ambassador adds that President Avila Camacho has been following the labor situation in Mexico with the very greatest care and that it is his judgment and that of his advisers that any movement of mine labor such as that proposed would have a most upsetting effect upon the labor situation and would also seriously prejudice the production of strategic minerals in Mexico.

The Ambassador has asked me to assure you and Mr. McNutt of his deep personal interest in this matter, and of his knowledge of and sympathy with the problems with which you are confronted. In order to go further into this subject he would be glad to have some person whom you might wish to designate proceed to Mexico in order to discuss it with him. He feels, of course, that if you should decide to send such a person, no publicity should be given to his travel and the entire matter should be handled with the greatest discretion.

Sincerely yours,

DEAN ACHESON

811.504 Mexico/14 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, July 28, 1943—7 p. m.

[Received July 30—12:20 a. m.]

754. Reference Embassy despatch No. 11,116 of June 30.⁴⁴ Brown of FSA saw Padilla Nervo this afternoon and received virtual ultimatum from him that all recruiting of labor must stop unless suggested arrangements for Mexican labor inspectors are approved not later than July 31. Brown has wired San Francisco and Hough⁴⁵ has telephoned Washington. He hopes you can get in touch with Colonel Bruton⁴⁶ to expedite decision.

Brown says even brief delay in recruiting will jeopardize August schedule.

MESSERSMITH

811.504 Mexico/28a

The Secretary of State to the Ambassador in Mexico (Messersmith)

No. 3871

WASHINGTON, July 31, 1943.

SIR: Reference is made to the Department's telegram no. 1171 of July 22, 1943⁴⁷ in regard to the contracting of agricultural workers for Texas under the agreement of August 4, 1942, and to subsequent communications between you and the Department regarding the reluctance of the Mexican Government to make these workers available because of the reported prevalence of racial discrimination against Mexicans in Texas. There is enclosed for your information and for such comment as you may wish to make, a copy of the translation of memorandum no. 4253 dated July 23, 1943 from the Mexican Em-

⁴⁴ Not printed.

⁴⁵ Samuel Hough, Representative of the War Manpower Commission.

⁴⁶ Col. Philip G. Bruton, Deputy War Food Administrator.

⁴⁷ Not printed; it conveyed the approval of the War Manpower Commission and the War Food Administration to the contracting of 5,000 additional laborers (811.504 Mexico/11).

bassy ⁴⁸ regarding what is stated to be an alarming increase in the number of reports received by that Embassy regarding discrimination suffered by Mexican residents in this country. In reading this memorandum you will no doubt note that it contains several incidents described in the communication which Dr. Padilla recently wrote to the Governor of Texas for delivery by Messrs. Blocker and McGregor. You will also no doubt share the opinion of the Department that the delivery of this memorandum to the Secretary on July 24 by the Mexican Ambassador, who came in at his request, is evidence that the Mexican Government is using the request of Texas for Mexican agricultural workers as the occasion for a strong drive to secure energetic measures on the part of this Government to put an end to racial discrimination.

The Department has under consideration the sending of a copy of this memorandum to the Governor of Texas but before doing so is awaiting a report of the visit to Governor Stevenson by Messrs. Blocker and McGregor.

Very truly yours,

For the Secretary of State:
A. A. BERLE, JR.

811.504 Mexico/43

The Ambassador in Mexico (Messersmith) to the Secretary of State

[Extracts]

No. 12015

MÉXICO, D. F., August 4, 1943.

[Received August 9.]

SIR: I have the honor to refer to the Department's telegram No. 1172 of July 22, 11 p. m., 1943 ⁴⁹ authorizing me to send Mr. Robert G. McGregor, Jr., Secretary of this Embassy, to join Consul General William Blocker of Ciudad Juarez in San Antonio in order that both of them could proceed to Austin, Texas in order to consult with Governor Coke R. Stevenson, of that State, concerning the matter of discriminations against Mexicans in Texas. Mr. McGregor left here on the morning of July 24 and carried with him the original and a translation of a note from the Mexican Foreign Minister addressed to the Governor in reply to a note from the Governor dated July 12, 1943. A copy of the Governor's letter together with a copy and a translation of Licenciado Padilla's reply are attached.⁵⁰ I also enclose a copy of a memorandum of conversation ⁴⁹ I had with Licenciado

⁴⁸ Not printed; it contained illustrations of race discrimination in the schools, theaters, swimming pools, etc., of Texas (811.4016/637).

⁴⁹ Not printed.

⁵⁰ Neither printed.

Padilla prior to McGregor's trip in which are embodied some instructions for McGregor's guidance in conducting his talks with the Governor.

Mr. McGregor returned to Mexico City on July 30, 1943 and prepared a report of his trip, a copy of which is likewise attached.⁵¹ The Department will note that the following procedure was decided upon: 1) the Governor will address a letter to all law enforcement agencies in the State of Texas calling upon them to be especially vigilant in repressing cases of discrimination against Mexicans as they arise (a copy of the letter is an appendix to enclosure 5); 2) the text of such a letter having already been cleared with the Mexican Foreign Minister and to be published in Texas at a later date, the Foreign Minister agreed to two things: *a*) to entertain and approve the Embassy's request for certification of 5,000 Mexican workers for Texas provided some way may be found to avoid such labor moving directly from Mexico to Texas, and *b*) to the simultaneous publication in Texas and Mexico of the exchange of notes between the Governor and the Minister. This last took place on July 29, 1943 and has already been the subject of despatches Nos. 11,860 of that date and 12,012 of August 4, 1943.⁵² 3) The formation of a Good Neighbor Commission by the Governor of Texas. This Commission would receive complaints of discriminations and, working through established civic organizations in Texas, such as the Chambers of Commerce, Boards of Education and Parent-Teachers Organizations, would carry on effective propaganda work of an educational nature. The Governor will publicly announce the composition of this Commission about August 10, 1943. 4) The Governor has tentatively accepted an invitation conveyed to him informally by Mr. McGregor at the request of Dr. Padilla to attend the Independence Day celebrations in Mexico City as a guest of the Mexican Government. At this time an opportunity will be afforded for discussions of this matter of discriminations.

I have noted with a great deal of interest the memorandum dated July 23, 1943 handed by the Mexican Ambassador to the Secretary of State on July 24,⁵³ a copy of which was sent with the Department's instruction No. 3871 of July 31, 1943. Most of the facts alleging discrimination found in the memorandum of the Mexican Embassy are taken textually from a report prepared by the Mexican Consul in Austin, Texas, Mr. Luis L. Duplan. This report was originally drawn up in the form of a letter addressed by the Consul to Dr. George I. Sanchez, a professor at the University of Texas and a member of the Committee on Inter-American Relations in the Southwest. The letter of the Consul was dated April 23, 1943. The fact that the Mexican

⁵¹ Not printed.

⁵² Neither printed.

⁵³ Not printed, but see footnote 48, p. 564.

Embassy waited three months to use the facts assembled in the letter would seem to bear out the contention of the Department in its instruction No. 3871 that the Mexican Government is using the request of Texas for workers as an excuse for bringing up the major issue of discrimination.

I have reason to know, however, that if it had not been for the statesmanlike vision of the Mexican Foreign Minister and the President this matter of discrimination would have been permitted to fester in the body politic here. When I first raised this question of labor to Texas with the Under Secretary of Foreign Relations, Dr. Torres Bodet, he made it very clear that he did not consider that such a matter should be presented at this time. The Minister, however, saw clearly that unless this very fundamental problem of discrimination was tackled now, during the war, when relations between our two countries are so closely interconnected, the opportunity to tackle it later might not recur or, if it did, not under such favorable circumstances. The Minister obviously saw that there are powerful influences in Texas which are bringing pressure on the Governor for this labor; he believed that the Governor even if he was not disposed to do anything about discrimination on humanitarian grounds, might be forced to do something about it if the furnishing of Mexican labor was made contingent upon it. The Minister also had the vision to see that relations between Texas and Mexico would not improve but would get worse if he denied a petition of this sort. . . .

The Department asks me to comment on the memorandum which the Mexican Ambassador handed to the Secretary. I believe the Department could use this despatch and its enclosures as the basis for a reply to the Mexican Ambassador setting forth therein the steps already taken by the Governor of Texas to handle cases of discrimination as they arise there. I understand that the Coordinator's Office has established an agency in Austin headed by a competent person to work with established agencies of the Texas State Government to bring an understanding of this problem to the people of the State of Texas. Mention might be made of the tireless work performed quietly by United States Consular officers (particularly Consul General Blocker) along the border. The Foreign Minister has received an entirely personal note from the Governor, a copy of which is attached,⁵⁴ which should dispel from his mind any idea that might have been falsely planted there that the Governor of Texas is not sincere in his desire to collaborate. At the same time I believe it should be made clear to the Mexican Ambassador that the solving of

⁵⁴ Letter of July 12; see footnote 43, p. 561.

this problem is one which depends upon the mutual collaboration of all the officials involved. The feeling exists in Texas and I believe it can be borne out by evidence, that Mexican Consuls are being over zealous in the exercise of their protective functions. Entirely too much publicity of an adverse nature pertaining to cases of discrimination can be directly traced to Mexican Consular officials. This only magnifies the problem and disturbs the work of agencies who must work carefully and quietly to be efficient. . . .

Respectfully yours,

G. S. MESSERSMITH

811.504 Mexico/72

Memorandum of Telephone Conversation, by Mr. W. G. MacLean of the Division of the American Republics

[WASHINGTON,] August 6, 1943.

Mr. McGregor telephoned about 7:00 last night to state that there was much concern in Mexico City regarding the contracting of agricultural workers for the United States, because *campesinos*⁵⁵ were leaving their properties, and because of the way applicants for contracts were piling up in Mexico City creating many housing, sanitation and other problems. He said that on August 5 the Government started to weed out from the applicants all those from the states of Michoacan, Guanajuato and Jalisco, and to send them back home (a) to reduce the problem in Mexico City, (b) to have them spread the word in those states that no more jobs were available thus discouraging further influx of workers to Mexico City and (c) to prevent crop losses from abandoned lands. (Probably 95 per cent of the experienced candidates for contracts are from those three states).

Mr. McGregor said that Mr. Brown, Chief of the Selection Station, was beginning to have his source of labor dry up.

The Ambassador called upon the Minister for Foreign Affairs and was given a memorandum in which the Mexican Government presented two alternatives:

(a) The Mexican Government would return genuine *campesinos* to their place of resident [*residence*] at the risk of having them disseminate scepticism about the prospects in Mexico City.

(b) The rate of contracting should be stepped up from 2500 to 6000 a week.

After studying the memorandum the Ambassador and Messrs. Brown and McGregor called on the Foreign Minister. The Am-

⁵⁵ Rural workers.

bassador told the Foreign Minister that we would try to settle the problem by the second alternative, duplication of the rate of recruiting. He said, however, that this involved many difficulties, one of which could be solved by placing the recruiting facilities on a two shift basis. Another major difficulty, transportation, was discussed and the Foreign Minister stated that if the recruiting were speeded up the transportation problem in Mexico could be taken care of by the Mexican Government.

In considering this problem it was also pointed out that approximately 38,000 agricultural workers have been contracted to date leaving a balance of 12,000 to be contracted during August. The Foreign Minister indicated that there would be no objection to increasing this number of workers provided the existing instructions were changed to permit the recruiting of physically capable workers but with no farm experience. With such workers made acceptable, Dr. Padilla stated that there would be no difficulty in getting more than the 50,000 workers agreed upon.

Mr. McGregor then said that it was the considered opinion there that if plan (b) were not adopted, all recruiting in Mexico City would fold up in about two weeks. He hastened to point out that this statement was in no way an ultimatum.

I asked him how long recruiting could be expected to hold up on a double shift basis. Mr. McGregor replied that if the War Food Administration would lower its requirements, an unlimited number of physically capable workers would be available and that recruiting could go on for six, eight or ten weeks or even more. He emphasized that the War Food Administration could be assured of getting good physical specimens. Mr. McGregor then again stressed the point that the Mexican Government has no desire to force this matter as an issue but was under the obligation of presenting these alternatives in order to handle a most difficult internal problem.

Mr. McGregor then informed me of the contents of the Embassy's telegram no. 784 of August 6⁵⁶ which had just been filed for the Department and called particular attention to the statement therein that the 5000 workers for Texas should form a part of any stepped up recruiting program for August and that this was particularly important because of the discussions with the Governor of Texas which resulted in an understanding looking to the control and eventual wiping out of discrimination in Texas.

Mr. McGregor stated that Mr. Brown had studied the personnel needs which must be met in the event of establishing a second selecting and contracting shift. The list follows:

12 Immigration inspectors.

24 Train crew personnel.

⁵⁶ Not printed.

- {1 Public Health Officer and
- {1 Technician to work on X-ray only.
- 1 Additional examining Public Health Officer.

Mr. Fritz Openlander from the San Francisco office of the War Food Administration as Transportation Officer.

Authority to hire 50 extra local employees.

Mr. McGregor then stressed the urgency of a quick reply, at least in principle, from the War Food Administration on this question and said that the Ambassador hoped to have something from us by noon today, August 7, to pass on to the Mexicans. I promised Mr. McGregor to telephone him by noon, Mexico City time, to furnish him all available information.

811.504 Mexico/61 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, August 20, 1943—5 p. m.
[Received August 21—12:15 a. m.]

825. Reference correspondence relating to Mexican labor contracted for work in the U. S. Mr. Tello, Official Mayor of the Foreign Office, in a conversation with an officer of the Embassy this morning, declared that so many adverse reports of poor treatment of Mexican track workers are being received from Mexican Consuls and workers themselves that the Mexican Government has gone as far as to consider denouncing the agreement with the War Manpower Commission, dated April 29, 1943. Mr. Tello said that in addition to the wage difficulty with the Santa Fe Railroad concerning which the Mexican Government feels it has received no satisfaction, complaints are being received daily alleging poor food and lodgings, lack of sanitation and in general inadequate disposition on the part of those responsible for administering the program to consider the welfare of the workers. Mr. Tello added that he had prepared telegraphic instructions to the Mexican Embassy at Washington to make urgent and pressing representations to the State Department seeking a transfer of all track workers now in the U. S. to either various industries or agriculture.

The officer of the Embassy made it clear that the U. S. Government would consider it most unfortunate if the track worker program had to terminate for the reasons set forth by Mr. Tello; that an opportunity to discuss difficulties should be afforded and a way found to avoid or to remedy.

The officer suggested that rather than place the matter in the hands of the Mexican Embassy it might be better to have a qualified representative of the War Manpower Commission come down here to take part in such discussions. Mr. Tello seemed pleased with the

suggestion and added that the Mexican Government for its part would consider requesting its Inspector General of Consulates in the U. S. to come to Mexico City for the proposed deliberations.

There can be no doubt that the Mexican Government is seriously concerned over the treatment of its track workers in the U. S. Mr. Tello says that he and other Mexican officials are delighted with the manner in which the Mexican farm labor is being handled but the fact that this latter type of labor is so well treated makes the position of the track labor all the more impossible. It was pointed out to Mr. Tello that the sincerity and desire on the part of the War Manpower Commission to carry out to the full its commitments under the agreement should not be doubted and that therefore, there must be some way by which the major objects of the Mexican Government can be met.

In view of the attitude of the Mexican Government I consider it of the utmost importance that someone high in the War Manpower Commission with a knowledge of the workings of the agreement and authority to speak in the name of the Commission come to Mexico City as soon as possible in order to participate in these discussions. I will appreciate an urgent reply to this message.

MESSERSMITH

811.504 Mexico/124 : Telegram

The Ambassador in Mexico (Messersmith) to the Secretary of State

MEXICO CITY, September 30, 1943—4 p. m.

[Received 10:19 p. m.]

962. As a result of my conversations with the President and the Ministry of Foreign Relations we have secured authorization to recruit agricultural workers up to 70,000 which I think we can get augmented to 75,000 shortly. We can proceed with commitments at home and recruitment here on this basis.

I also have a tentative authorization to increase the recruitment of railway workers by at least 5,000 but before we can proceed with this certain situations, which have arisen with respect to the railway workers and with which the Mexican authorities are definitely dissatisfied, will have to be clarified. There can for the moment be no further recruitment of railway workers.

I have covered the whole situation in a full despatch number 13,283 of September 29,⁵⁷ and in a letter to Mr. Bonsal⁵⁸ of the same date which went forward by airmail today.⁵⁷

MESSERSMITH

⁵⁷ Not printed.

⁵⁸ Philip W. Bonsal, Chief of the Division of the American Republics.

811.504 Mexico/127

*The Chief of the Division of the American Republics (Bonsal) to the
Ambassador in Mexico (Messersmith)*

WASHINGTON, October 8, 1943.

MY DEAR MR. AMBASSADOR: I acknowledge the receipt of your letter and despatch of September 29, 1943,⁵⁹ regarding the increased quotas for Mexican workers which have been established as a result of your conversations with President Avila Camacho. These quotas and especially the refillable basis on which they now stand represent real progress in the manpower situation.

The War Food Administration has been informed of the new figure on the basis of your telegram no. 962 of September 30, 1943, and Colonel Bruton has requested that sincere appreciation be passed along to you. He stated that the Administration has currently under study the question of the number and distribution of agricultural workers which will be needed in the next few months. He indicated that present estimates are that only about 20,000 workers will be utilized in agriculture throughout the winter, and the studies being made are to provide for the others now here and those who may come in the next few weeks. The War Food Administration and the War Manpower Commission hope to hit upon an arrangement satisfactory to the Mexican Government to provide work in other industries during the winter for those workers not needed in agriculture. It has been stressed to them that any plans made must be cleared with the Mexican Government.

The railroad problem, however, from all indications, is serious. From the Embassy's despatch no. 12,987 of September 13, 1943,⁶⁰ which reports the discussions held in Mexico City between representatives of the two Governments, I note that the basic point of difference is the question of salaries paid to Mexican workers by the railroads. Apparently early in the conversations the Mexicans made the point that these salaries were discriminatory because higher salaries were being paid in certain regions to other workers who were doing the same type of work but as employees of contracting companies. The fifth and last paragraphs of the memorandum of the last meeting with the Mexicans, enclosure two of the despatch under reference, indicate that the Mexicans sustained their demand for wage increases which were not in the power of the representatives of this Government to give.

In this regard I note that Mr. Motley ⁶¹ pointed out to the Mexicans that this Government did not consider the wages discriminatory since

⁵⁹ Neither printed.

⁶⁰ Not printed.

⁶¹ Chief of Employment Office Service Division, War Manpower Commission, and participant in the stalemated conversations at Mexico City on recruitment and wages.

they were the same as those paid to the 105,000 track workers who do this particular job with the Mexicans. He also stressed the fact that these wage rates were frozen under the President's hold the line order, and that the War Manpower Commission was therefore unable to meet the Mexican demands for increased wages.

Mr. Motley also told them that a proposal to increase wages for track workers by eight cents an hour had been submitted to the President. It was probably the hope of the War Manpower Commission that this increase, involving back pay of approximately \$100.00 for the majority of Mexican railroad workers, would help in securing the withdrawal of Mexican objections to wages at present levels. However, Office of Defense Transportation representatives have now informed the Department that Mr. Vinson ⁶² has stopped this proposal. It is possible that the portion of the proposal referring to track workers will receive further consideration, but it is now too late for any psychological benefit to be derived therefrom.

The fact must therefore be faced by the interested agencies of this Government, who continue to press the Department to secure more workers from Mexico, that a way must be found to meet the Mexican demands. To bring this matter before these agencies a letter is being addressed to Governor McNutt, a copy of which is enclosed.⁶³ You will note that he is being informed of your suggestion that representatives of the Commission go to Mexico to continue discussion of the points at issue. It is then stated, however, that it is the Department's opinion that a continuation of the discussions will not be productive of further workers unless such representatives are empowered to meet the Mexican wage demands at least to the extent of placing these railroad workers on a wage par with the Mexican agricultural workers in California who receive a minimum of about sixty cents.

With cordial regards,

Sincerely yours,

P[HILIP] W. B[ONSAL]

811.504 Mexico/184

*Memorandum by the Chief of the Division of the American Republics
(Bonsal)* ⁶⁴

[WASHINGTON,] November 5, 1943.

This memorandum is to set forth the present status of efforts being made to secure additional urgently needed railroad workers from

⁶² Fred M. Vinson, Director of the Office of Economic Stabilization.

⁶³ Not found in Department files.

⁶⁴ Addressed to the Adviser on Political Relations (Duggan), the Assistant Secretary of State (Berle), and the Under Secretary of State (Stettinius), each of whom noted his approval.

Mexico and permission from the Mexican Government to renew the contracts of Mexican railroad workers already in this country, and to stress the desirability of a prompt decision by the Department regarding the proposal made by Ambassador Messersmith⁶⁵ and modified by the War Manpower Commission that present differences be submitted for study to a special commission of two representatives of each Government. It is believed that if agreement to such a commission is reached, the Mexican Government will immediately permit recruiting of additional workers and the renewal of contracts of workers now here.

The War Manpower Commission, seconded by the Office of Defense Transportation, has consistently held that it is impossible to meet the Mexican demand that wage adjustments be given certain workers on the Santa Fe Railroad who for a time worked beside employees of a contracting company who received much higher pay. The number of workers is comparatively small, perhaps 200, and the amount involved has been estimated as from \$20,000 to \$50,000. The agencies mentioned hold that no wage adjustment can be made for workers, Mexican or domestic, except through the procedure set up under the Railway Labor Act⁶⁶ and have pointed to the President's "hold the line" order⁶⁷ as a further complication to an adjustment. This situation is explained in Governor McNutt's letter of October 28 and Mr. Joseph B. Eastman's letter of October 13,⁶⁸ both of which stressed that it was hoped that the Mexican Government would realize this difficulty and would permit contracting and renewal of contracts to proceed. The letters also stated that while no special adjustment could be arranged, every effort was being made to secure a blanket increase of wages for all maintenance of way workers, domestic and Mexican, of at least eight cents per hour.

The Department's instruction no. 4636 of October 29 to Ambassador Messersmith,⁶⁹ based on these letters, crossed with a despatch from the Ambassador⁷⁰ which stated that he had proposed to the Mexican Government the formation of a commission of two representatives from each Government to "determine names and amounts and that the Santa Fe would assume responsibility for this particular compensation to the particular workers". The Ambassador stated that the

⁶⁵ Proposal made in despatch No. 13876, October 29, not printed.

⁶⁶ Act of June 21, 1934; 48 Stat. 1185.

⁶⁷ Executive Order No. 9250, October 3, 1942, on stabilization of the national economy; see 7 *Federal Register* 7871.

⁶⁸ Neither printed.

⁶⁹ Not printed; it reported the views of Chairman McNutt, pointing to unequal wage rates among domestic laborers in the United States and to the prospect of wage increases (811.504 Mexico/167b).

⁷⁰ Despatch No. 13876, October 29, 1943, not printed.

Mexican Foreign Office had informed him in reply to his proposal "that if agreement was reached to the naming of such a committee and agreement that the compensation for such workers . . .⁷¹ would be paid . . . the Mexican Government would remove objections to the further recruitment of Mexican labor . . . and would also permit the renewal of the contracts of such track workers in the United States who wished to remain".

The Embassy advised me of the above proposal by telephone on October 30, at which time I said that the Department's instruction on this subject, the general nature of which had been previously invited to the attention of the Embassy, was en route. I expressed serious doubts that this Government could agree to a commission for the objectives proposed.

The War Manpower Commission and the Office of Defense Transportation, to whom copies of the Ambassador's despatch were given on Monday November 1, immediately expressed grave doubts as to the possibility of accepting the proposal, and a letter dated November 4 has now been received from Governor McNutt⁷² which states that a commission for the special objective set forth by the Ambassador cannot be accepted.

Governor McNutt states that the commission is willing, however, to accept the appointment of a four man commission which "would be responsible for considering any differences between our two Governments as to the interpretation of the existing agreement, for studying the operation of the agreement with a view to making recommendations to our two Governments with respect to necessary changes in the agreement, and for recommending such administrative action as will minimize further individual complaints". At the same time he requested that the Mexican Government be asked to give immediate consent to the renewal for 30 days of Mexican railroad worker contracts which begin to expire on November 13.

The Embassy has been informed by telephone of this counter-proposal by the War Manpower Commission, and is ready to submit it to the Mexican Government upon receipt of instructions from the Department. While the counter-proposal has less immediate promise from the Mexican viewpoint, it apparently does not exclude the possibility of an eventual settlement of the Mexican claim for wage adjustment. A later and delayed settlement under recommendations from the special commission might be less embarrassing for the War Manpower Commission because it would be distinctly on a Gov-

⁷¹ Omissions indicated in the original memorandum.

⁷² Not found in Department files.

ernment to Government basis and it might come at a time of less tension in the railroad labor wage field. The War Manpower Commission would expect to have a representative on the committee, while the Department would be free, apparently, to name the other representative of this Government.

I recommend the establishment of the proposed commission, with duties as outlined by Governor McNutt, and, subject to your approval thereof, I shall authorize Ambassador Messersmith to make such an arrangement with the Mexican Government.

PHILIP W. BONSALE

811.504 Mexico/186

*Memorandum by the Chief of the Division of the American Republics
(Bonsale)⁷³*

[WASHINGTON,] November 6, 1943.

The Embassy in Mexico City was informed late yesterday afternoon that the Department authorized presentation to the Mexican Government of the War Manpower Commission's statement of functions for a proposed joint mission to consider problems in regard to Mexican railroad workers.

The Embassy this morning reported that the Mexican Foreign Office reacted very favorably to this counter proposition, but this afternoon at three p. m. the Embassy reported by telephone that the Ministry of Labor had informed the Foreign Office by telephone that it would accept no other function for a joint commission than that of determining (a) how many and what individual Mexican railroad workers were discriminated against as to wages on the Santa Fe, (b) how long the discriminatory situation existed, and (c) how much each of those individuals was entitled to. The Labor Office said it did not insist on immediate settlement of the account, that it would have no further claims to make regarding adjustments as long as Mexican workers were not put along side of American workers who were receiving higher wages, and that no objections were made to present wage rates as determined by collective bargaining.

The attached memoranda of conversations⁷⁴ give the information from the Embassy, and copies thereof have been furnished the War Manpower Commission for study and further recommendation to the Department.

PHILIP W. BONSALE

⁷³ Addressed to the Assistant Secretary of State (Berle) and the Under Secretary of State (Stettinius).

⁷⁴ Not printed.

811.504 Mexico/168

*The Acting Secretary of State to the Ambassador in Mexico
(Messersmith)*

No. 4739

WASHINGTON, November 11, 1943.

SIR: Reference is made to the Agreements of August 4, 1942 and April 29, 1943 for the temporary migration of Mexican agricultural and non-agricultural workers to the United States. The Department has now received a communication dated November 1, 1943 from Governor Paul V. McNutt,⁷⁵ Chairman of the War Manpower Commission, in which he requests that the Mexican Government be approached with a view of securing its permission to the transfer of agricultural workers who may not be needed during the winter months to employment under the non-agricultural agreement.

Governor McNutt states that he has been informed by the War Food Administration that at least 10,000 Mexican agricultural workers will become available for such transfer between November 1 and December 31. In his letter he lists a variety of industries in which these workers could perform a valuable service in the production of materials of importance in the war effort.

You are requested to discuss this proposal with the Mexican Foreign Office with a view to securing the desired permission. Please inform the Department on an urgent basis of the results of your representations.

Very truly yours,

EDWARD R. STETTINIUS, JR.

811.504 Mexico/197b

The Secretary of State to the Ambassador in Mexico (Messersmith)

No. 4748

WASHINGTON, November 12, 1943.

SIR: Reference is made to your despatch no. 13,082 of September 17, 1943, and to the Department's instruction no. 4485 of October 12, 1943,⁷⁶ in reply thereto, regarding a note from the Mexican Foreign Office concerning charges made by certain Mexican railroad workers that they had been made the object of discriminatory actions in the towns of Monahans and Midland, Texas. You were informed in the Department's instruction under reference that this complaint had been invited to the attention of the War Manpower Commission and of the Governor of Texas.

A reply has now been received from the War Manpower Commission, a copy of which is attached hereto,⁷⁷ from which it is apparent

⁷⁵ Not printed.

⁷⁶ Neither printed.

⁷⁷ Reply of November 3, 1943, not printed; it reported Mexican complaints concerning straw mattresses, inadequate bathing facilities, race discrimination, and overcrowded camp cars.

that the majority of the complaints concerned living conditions involving the complaining Mexican nationals. The War Manpower Commission report indicates that as a result of the prompt investigation made, immediate steps were taken to satisfy the workers.

Your attention is invited in this regard to despatch no. 1970 of October 25, 1943,⁷⁸ from Consul General William P. Blocker, who states that ameliorative action has been taken by the President's Committee on Fair Employment Practices. It is not clear, however, from Mr. Blocker's despatch, a copy of which was forwarded directly to the Embassy, whether action was also taken on this matter by the Texas Good Neighbor Commission, to which the complaint was also referred through the Governor of Texas. If a further report on this matter is received from the Good Neighbor Commission the Embassy will be informed thereof.

Very truly yours,

For the Secretary of State:
A. A. BERLE, JR.

811.504 Mexico/207

*Memorandum of Telephone Conversation, by Mr. W. G. MacLean of
the Division of the American Republics*

[WASHINGTON,] November 13, 1943.

Mr. O'Donoghue⁷⁹ telephoned at noon today to inform the Department that the Embassy had received from the Mexican Foreign Office permission for the War Manpower Commission to renew contracts of Mexican railroad workers, which contracts begin to expire today, and for further recruiting of 5,000 Mexican railroad workers in Mexico City under the agreement of April 29, 1943. In reply to a question, Mr. O'Donoghue stated that it was his understanding that the permission to recruit 5,000 additional workers meant that the Mexican Government agreed that 20,000 Mexican railroad workers could now be maintained in this country. (This understanding is in accordance with the Ambassador's despatch no. 13,283 of September 29, 1943.)⁸⁰

I told Mr. O'Donoghue that all concerned here would be very happy to have this definite clearance, and that I would immediately inform the War Manpower Commission that they could proceed with further recruiting in Mexico City at any time and could proceed with the renewal of contracts of workers now here, as those contracts expire.

Mr. O'Donoghue said that there had been some delay in securing the above commitment from the Mexican Foreign Office because Mr.

⁷⁸ Not printed.

⁷⁹ Sidney E. O'Donoghue, Second Secretary of Embassy in Mexico.

⁸⁰ Not printed.

Manuel Tello of the Foreign Office, who has been handling the matter, had been sick and absent from the office.

Mr. O'Donoghue stated in regard to the Mexican members of the commission and the place of meeting that the Mexicans had apparently not reached a decision. He expected to receive this information the first of next week. I told him that the clearances mentioned above were of course the matter of first interest and that our representatives were ready to meet the Mexican representatives at any time. He said he would inform the Department as soon as further word was received from the Foreign Office.

On the basis of a letter from the War Food Administration, I then asked him to seek the approval of the Mexican Government to permit the Administration to use up to 2,000 Mexican agricultural workers in packing plants of the Pacific Northwest, which were having an unprecedented receipt of cattle and which had heavy orders for allied and domestic consumption to meet in the near future. I said that the War Food Administration would continue to take care of these men under the full terms of the international agreement of August 4, 1942, as amended on April 26, 1943, and especially see that wage rates, which vary from 60 to 80 cents per hour according to the task performed, would be the same as those paid to domestic workers in the packing plants under consideration. Mr. O'Donoghue said that he would immediately present this request to the Mexican Government and that he would follow this request early next week with a request, the subject of a recent instruction from the Department, that permission be given to transfer workers from the agricultural agreement to the non-agricultural agreement for railroads and industry during the next few months.

811.504 Mexico/218

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 14359

MEXICO, November 22, 1943.

[Received November 27.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction no. 4739 of November 11, 1943, transmitting a copy of a letter dated November 1⁸¹ from Governor Paul V. McNutt, Chairman of the War Manpower Commission, in which he requests that the Mexican Government be approached with a view to securing its permission to the transfer of approximately 10,000 agricultural workers who may not be needed during the winter months to employment under the non-agricultural agreement. The Department di-

⁸¹ Latter not printed.

rected me to discuss this proposal with the Mexican Foreign Office with a view to securing the desired permission.

In this same connection I desire to refer to the Department's instruction no. 4789 of November 17 ⁸² respecting the desire of the War Food Administration to transfer from 1000 to 2000 surplus agricultural workers to certain meat packing houses in the Pacific Northwest. The Department will recall that when this question was discussed with officials of the Foreign Office and the Ministry of Labor, they made it a *sine qua non*, before even considering the proposal, that the packing plants guarantee to provide lodging and feeding facilities equivalent to those which the agricultural workers enjoy under the existing agricultural workers agreement.

Governor McNutt states that the War Manpower Commission is interested in obtaining agricultural workers for employment in war essential industries, in which there is a shortage of workers, and "which can provide suitable working conditions". He indicated that in his opinion the approach to the Mexican Government should be on the basis of the transfer of agricultural workers "to all war essential industries, rather than to specific industries".

I have not discussed this matter with the Mexican Government officials in view of the fact that even should they prove agreeable to the transfer of such agricultural workers to war essential industries, there could be no guarantees given that lodgings and feeding facilities would be exactly the same as those which they now have in agricultural employment. It would seem to me that from the very nature of the employment to which it is proposed to transfer these workers, it would be impossible to provide them with the facilities which can be afforded them on the farms where they are now employed.

I am likewise disturbed over the project of transferring agricultural workers to non-agricultural employment, especially in war essential industries. If I am not mistaken, the average wage rate of employees in essential war industries is considerably higher than that paid to agricultural workers. It would appear to be only reasonable to conclude that when the need for agricultural workers again becomes apparent, it would be extremely difficult, if not impossible, to re-transfer workers from essential war industries to agricultural employment. If I am correct in my opinion that the need for agricultural workers is of the first importance to us, then I think we should explore every possibility to locate existing surplus agricultural workers in other areas where agricultural employment may be possible during the winter months.

With respect to the instruction under reference, I do not propose to take any steps vis-à-vis the Mexican authorities unless otherwise directed by the Department, and then only if guarantees can be given

⁸² Not printed.

with respect to food and lodging for such Mexican workers as may be transferred to war essential industries.

Respectfully yours,

G. S. MESSERSMITH

811.504 Mexico/200

The Secretary of State to the Ambassador in Mexico (Messersmith)

No. 4841

WASHINGTON, November 26, 1943.

SIR: Reference is made to the agreement of April 29, 1943 for the bringing in of non-agricultural workers to the United States, and to the agreement of August 4, 1942, as revised on April 26, 1943, for the bringing in of agricultural workers from Mexico. Reference is also made to censorship intercepts which have been forwarded to you from time to time, some of which made clear that Mexican workers in the United States were requesting members of their families in Mexico to write letters declaring that members of the family in Mexico were ill and that the worker in the United States should therefore return immediately. Two intercepts of this kind are transmitted herewith for your reference.⁸³

The War Food Administration has written to the Department a letter under date of November 17, 1943 ⁸³ in which it is pointed out that the rapidly increasing repatriation of Mexican nationals before completion of their contracts is a matter of serious concern. The Administration points out that large numbers of workers have been using various excuses to return home before the expiration of their contracts, and then have promptly reappeared for recruitment in Mexico City for return to this country for further employment under the agricultural agreement. This practice is now apparently reaching alarming proportions, and the Department concurs with the statement of the War Food Administration that this Government cannot continue to assume the rapidly increasing costs in terms of wasted manpower, crops and travel expenses.

The communication from the War Food Administration states that many requests have also been received from workers in this country who wish to go home at their own expense for short vacation periods, after which they would return again to this country for further employment. This plan involves no direct expense for the War Food Administration, and the Administration has made arrangements with the Immigration and Naturalization Service so that the individual worker may re-enter the United States without difficulties. There is enclosed herewith for your information a copy of the War Food Administration's letter under reference, as well as copies of its enclosures, instructions and documents for use by regional di-

⁸³ Not printed.

rectors of this program in regard to vacation periods for agricultural workers.

The War Manpower Commission has apparently been making use of a similar plan in regard to Mexican maintenance of way workers under the non-agricultural agreement, according to a letter dated November 15, 1943 from the Acting Chief of the Bureau of Placement of the Commission, a copy of which is also transmitted herewith.⁸⁴ However, railroad workers returning to Mexico under leaves of absence have encountered unexpected difficulties with the Mexican immigration officials, according to the War Manpower Commission. The individuals concerned have been requested to pay five pesos or to turn in their passports to Mexican immigration authorities. Some of the men have paid, but those who refused to do so have had their passports picked up.

The War Manpower Commission requests that this matter be brought to the attention of the proper officials of the Mexican Government, with a view to reaching an understanding that Mexican nationals who have been granted leaves of absence to visit their families in Mexico may return to the United States to complete their contracts without any charges being imposed by the Mexican Government for their re-entry. You are therefore authorized, in your discretion, to discuss this matter with the Mexican Foreign Office with a view to effecting the arrangement requested. It is suggested that you may wish to make this arrangement applicable to both agricultural and non-agricultural workers, although the War Food Administration has not yet reported difficulties of this kind.

You are also authorized, in your discretion, to discuss the contents of the War Food Administration's letter of November 17, 1943 with the Mexican Foreign Office in order that it may be informed of the difficulties which have arisen and of the measures which are being taken to make it possible for the workers to visit their families for legitimate reasons without canceling their contracts and without causing unjustifiable expense to this Government.

Very truly yours,

For the Secretary of State :
A. A. BERLE, JR.

811.504 Mexico/203

*The Secretary of State to the Chairman of the War Manpower
Commission (McNutt)*

WASHINGTON, November 26, 1943.

MY DEAR GOVERNOR MCNUTT: I refer to my letter of November 19, 1943, in answer to your communication of November 9, 1943,⁸⁵ regard-

⁸⁴ Not printed.

⁸⁵ Neither printed.

ing the functions of a four man commission to consider a claim of the Mexican Government on behalf of Mexican railroad workers in this country under the agreement of April 29, 1943.

I now enclose for your information a copy of despatch no. 14,248 of November 16, 1943, from our Embassy at Mexico City, to which are attached as enclosures copies of the notes exchanged ⁸⁶ by the Embassy and the Mexican Foreign Office setting up the four man commission referred to and specifying the duties which are assigned to it. The note from the Mexican Foreign Office expresses agreement to the renewal of individual work contracts, subject to the consent of the workers themselves, and refers to the contracting of 5,000 additional maintenance of way workers, which, I understand, are now being selected in Mexico City.

It will be noted that the Mexican Government, while accepting the duties of the commission as proposed in your letter of November 9, expresses the hope that the commission will not be limited to considering the incident at Fullerton, California, but that the labors and the competence of the commission may be made extensive to all other cases of wage discrimination which may have arisen. The Embassy has been given no instructions regarding this point raised by the Mexican Government since it was agreed in the meeting of November 9 in the War Manpower Commission that it would be best to limit this four man commission to a solution of the present differences, leaving future problems to be settled through usual diplomatic channels.

Sincerely yours,

For the Secretary of State:
EDWARD R. STETTINIUS, JR.
Under Secretary

811.504 Mexico/237

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 14709

MÉXICO, D. F., December 9, 1943.
[Received December 14.]

SIR: I have the honor to acknowledge the receipt of the Department's instruction no. 4841 of November 26, 1943, stating that the War Food Administration has become concerned regarding the rapidly increasing repatriation of Mexican nationals before completion of their contracts. The Administration pointed out that large numbers of workers had been using various excuses to return home before the expiration of their contracts and had then promptly reappeared for recruitment in this capital for return to the United States for further employment under the agricultural agreement. The Depart-

⁸⁶ None printed.

ment directed the Embassy to bring this matter to the attention of the Foreign Office here and also to arrive at an understanding that Mexican nationals, who have been granted leaves of absence to visit their families in Mexico, might return to the United States to complete their contracts without any charges being imposed by the Mexican Government for their re-entry.

As of December 1, the Embassy brought the above to the attention of Señor Manuel Tello, Oficial Mayor of the Ministry for Foreign Affairs. Señor Tello expressed himself as being in accord with the arrangements made whereby Mexican workers were granted leave of absence without pay and for their return to the United States. Señor Tello was informed orally as to the charges being made by Mexican immigration officials at border ports of entry and he said that he would look into this phase of the matter.

The Embassy has been shown a copy of instructions which have been issued to Mexican workers, agricultural and non-agricultural, in the United States by the representatives there of the Mexican Ministry of Labor. These instructions point out the increasing number of repatriations being demanded by the workers on flimsy excuses and states that these cannot be tolerated; that in the future workers who desire to be repatriated before the termination of their contracts may be so repatriated only on the most urgent personal family matters, such as illness or death and that such illness or death must be attested by a reputable physician in the home district of the worker and certified to by the competent Mexican civil authority. It is hoped that with the strict enforcement of these instructions the number of repatriations of which the War Food Administration is concerned will be considerably decreased.

Respectfully yours,

For the Ambassador:
SIDNEY E. O'DONOGHUE
Second Secretary of Embassy

811.504 Mexico/246a

The Secretary of State to the Ambassador in Mexico (Messersmith)

[Extracts]

No. 4932

WASHINGTON, December 14, 1943.

SIR: Reference is made to the Department's strictly confidential instruction no. 4873 of December 3, 1943,⁸⁷ and to the telephone conversation of December 4 [3], 1943⁸⁸ between Mr. Sidney E. O'Donoghue, Second Secretary of the Embassy, and an officer of the

⁸⁷ Not printed.

⁸⁸ Memorandum of conversation not printed.

Department regarding statements made by a representative of a labor organization in a telegram to Mexican officials. The telegram protested that Mexican workers brought into this country under existing agreements were by the terms of those agreements prevented from becoming members of labor organizations and that they were therefore being discriminated against.

You will be interested in knowing that since that conversation between Mr. O'Donoghue and an officer of the Department this matter has been discussed with both the War Manpower Commission and the War Food Administration, both of which share the Department's opinion that there is nothing in the agreements which would prevent Mexican workers from joining unions if they so wished. Colonel Philip G. Bruton, Deputy Administrator of the War Food Administration in charge of labor matters, telephoned Mr. William G. Anglim at San Francisco, in charge of the field administration of Mexican agricultural workers, who confirmed that in field practice the War Food Administration had been neutral in regard to this question. Mr. Anglim further stated that it was his understanding that the American Federation of Labor and the Congress of Industrial Organizations had been interested at the time of the negotiation of these agreements that there would be no displacement of American laborers by workers brought in from Mexico, and that Section 4 of the General Provisions reflected this interest. It may be further stated that at the time the agreements were negotiated, the Mexican Government, because of the temporary nature of the migration, had reservations about Mexican workers being involved with American unions and that the American unions apparently shared these reservations.

Very truly yours,

For the Secretary of State:
A. A. BERLE, JR.

811.504 Mexico/260

The Ambassador in Mexico (Messersmith) to the Secretary of State

No. 14999

MEXICO, December 28, 1943.
[Received January 1, 1944.]

SIR: Reference is made to the Department's instruction no. 4799 of November 19, 1943⁸⁹ in connection with the setting up of a four-man commission composed of two representatives of the Mexican Govern-

⁸⁹ Not printed.

ment, and two representatives of the Government of the United States, to consider problems raised in relation to the Mexican railroad workers employed in the United States under the agreement of April 29, 1943.

I now have the honor to inform the Department that in a note dated December 16, 1943 the Ministry for Foreign Affairs has informed the Embassy that the Mexican representatives on the commission will be Lic. Luis Padilla Nervo, the Official Mayor of the Ministry of Labor, and Mr. Manuel Aguilar, a Mexican Consul assigned to the Consulate General in Los Angeles.⁹⁰

The Ministry added that the Mexican commissioners will be glad to join the United States commissioners in El Paso, Texas on January 17, 1944. It is presumed by the Embassy that the Mexican representatives can be located through the Mexican Consulate General in El Paso.

Respectfully yours,

For the Ambassador:
SIDNEY E. O'DONOGHUE
Second Secretary of Embassy

AGREEMENT BETWEEN THE UNITED STATES AND MEXICO REGARD-
ING PAYMENT FOR EXPROPRIATED PETROLEUM PROPERTIES ⁹¹

412.11 Oil/137

The Department of State to the Mexican Embassy

MEMORANDUM

Reference is made to the memorandum presented by His Excellency the Ambassador of Mexico ⁹² to the Department of State on November 18, 1942 ⁹³ concerning the conclusion of a final agreement in relation to the matter of claims of American nationals arising out of the expropriation of petroleum properties in Mexico.

The proposals submitted in the Embassy's memorandum have been given careful consideration, but more definite information is desired regarding the position of the Mexican Government in relation to the recommendations made in the joint report ⁹⁴ of Messrs. Cooke and Zevada ⁹⁵ with respect to claims against the interested companies.

⁹⁰ The American members were Judge Charles M. Hay, General Counsel of the War Manpower Commission, and William G. MacLean of the Department of State.

⁹¹ For previous correspondence concerning the expropriation of petroleum properties in Mexico, see *Foreign Relations*, 1941, vol. VII, pp. 371 ff. *passim*. See also bracketed note, *ibid.*, 1942, vol. VI, p. 525.

⁹² Francisco Castillo Nájera.

⁹³ Not printed.

⁹⁴ For text of joint report, see Department of State *Bulletin*, April 18, 1942, p. 351.

⁹⁵ Morris L. Cooke and Manuel J. Zevada represented the United States and Mexico as experts to determine the compensation due the oil companies.

The joint report contained the following recommendations:

1. That the claimant companies remain liable on account of claims of the Government of Mexico for unpaid taxes and duties and for payments made for their account by that Government, and also for private claims against the companies pending in the Mexican courts on April 17, 1942; and

2. That the Mexican Government assume responsibility for all private claims against the companies instituted by private individuals after April 17, 1942.

It is stated in the Embassy's memorandum under reference that, with a view to concluding a final arrangement with respect to the matter, the Mexican Government "might agree to release the petroleum companies from the obligations which the Zevada-Cooke award left against them" if the Government of the United States would be prepared to regard as included in the settlement claims with respect to the properties of certain companies not named in the Expropriation Decree of March 18, 1938 or in the joint report of Messrs. Cooke and Zevada. However, it is also stated that the proposed release would be applicable only with respect to such of the above-mentioned claims against the companies as are under the "exclusive" jurisdiction of the courts of Mexico.

In view of the fact that some, if not all, of the claims in question may not be regarded as subject to the "exclusive" jurisdiction of the courts of Mexico the proposed arrangement would appear to leave the companies subject to suit in the courts of the United States on account of such claims.

Accordingly, in order that the Department of State and the interested companies may be in a position to consider the proposals of the Government of Mexico with full understanding of their purport, the Department of State would greatly appreciate receiving a more comprehensive statement of the position of the Mexican Government in relation to the scope of the proposed release.

WASHINGTON, February 16, 1943.

412.11 Oil/161

The Mexican Embassy to the Department of State

[Translation]

MEMORANDUM

The Government of Mexico has given most attentive consideration to the Memorandum of February 16, 1943 submitted by the Department of State of the United States of America in connection with the arrangement—under negotiation—intended to determine the interpre-

tation and the scope of the valuation which fixed the compensation due to the United States nationals whose properties, rights and interests in the petroleum industry in the Republic were affected by acts of the Mexican Government subsequent to March 17, 1938.

With the purpose of obtaining a definitive solution of this matter, in the broadest spirit of collaboration, the Government of Mexico desires to define its attitude by means of the examination of the antecedents which it summarizes below:

1. According to the engagement contracted in the notes which were exchanged at Washington, November 19, 1941 ⁹⁶ the International Commission of Experts was formed for the purpose of fixing a just compensation for the United States nationals affected by the petroleum expropriation. The said Commission was empowered, by paragraph 10 of the agreement mentioned, to render a joint opinion in which it should fix precisely the indemnities which it might consider proper and recommend the manner and terms of payment thereof. Furthermore, it will be recalled that—in accordance with paragraphs 12 and 16 of the same notes—it was determined that the joint opinion would be not subject to appeal and the compensation and interest fixed by the experts would be of a final character; leaving to the Chancelries only the final decision concerning the form and terms of the payment.

2. On April 17, 1942 the Commission of Experts submitted to the Governments of Mexico and the United States of America a joint opinion resulting from the agreement of the experts. This opinion concludes with five proposals, of which the fourth makes a recommendation while the others are expressed in clearly conclusive form.

Everything seemed to indicate that, with the settlement and the scale of payments which the Government of Mexico submitted to the Department of State on June 30 and July 25, 1942,⁹⁷ the case should be deemed to be settled.

3. Nevertheless, the Department of State thought that the conclusions of the joint expert opinion were susceptible of interpretation and, in its Memorandum of September 9, 1942 ⁹⁷ it characterized as recommendations the second and third conclusions of the above-mentioned decision. In its judgment, the experts recommended:

(a) That before any payment should be made to the companies concerned the latter would have to deposit in escrow all the documents and instruments of ownership relating to the expropriated properties with a view to delivering them to the Government of Mexico on the date of the complete settlement of the debt;

(b) That the Government of Mexico and the companies should release each other from all unpaid obligations, with the exception of

⁹⁶ For texts of notes, see Department of State Executive Agreement Series No. 234, or 55 Stat. (pt. 2) 1554.

⁹⁷ Not printed.

certain claims of the Government of Mexico against the companies; and

(c) That one-third of the amount of the compensation agreed upon by the experts should be paid on July 1, 1942 and the balance in five equal annual installments payable on July 1 of each of the following years.

Furthermore, in the same Memorandum, the attention of the Government of Mexico was called to the fact that six companies whose properties had been affected by acts of expropriation had not been listed in the experts' opinion and that, of these, the *Compañía Petrolera Titania S.A.* and the *Compañía de Petróleo Mercedes, S.A.* had obtained a decision of the Mexican Supreme Court of Justice which implied the return of their properties and rights.

Finally, with the purpose of reaching a definitive solution, the Government of the United States proposed to conclude an agreement along the following lines:

I—That the Government of Mexico should pay the indemnity and interest fixed in the expert opinion.

II—That such payment should be effected in the manner and according to the settlements proposed by the same Government in the course of the formal and informal conversations that were held in the matter.

III—That a general quittance should be declared of obligations and liabilities between the Mexican Government and the expropriated companies; four of the six companies which had been excluded being also considered as included in the opinion.

IV—That the Government of Mexico should assume all claims against the companies; whether fiscal, labor or private.

V—That the companies should deposit in escrow their titles of ownership, documents, et cetera, for delivery to the Government of Mexico at the moment of making the final payment.

VI—That the Government of Mexico should return—in execution of the decision of its Supreme Court—to the *Titania* and *Mercedes Petroleum Companies* their properties and rights; granting to them, moreover, additional concessions and giving them facilities for the resumption and increase of their activities.

4. The Mexican Chancelry replied to the foregoing proposal in its Memorandum of November 17, 1942.⁹⁹ It rejected, in the first place, the sixth point, regarding the *Titania* and *Mercedes Companies*, as being completely foreign to the negotiations for the purpose of giving execution and practical application to the opinion of the experts, Messrs. Zevada and Cooke. Next, it referred to the manner of the payment of the indemnity and interest fixed by the experts, stating that for it properly to be perfected, the agreement already reached by both Governments only needed to be set forth formally. Lastly it em-

⁹⁹ Not printed.

phasized the impropriety of modifying the experts' opinion so far as concerns:

(a) The financial liabilities to which the companies mentioned therein were liable; and

(b) the petroleum companies which did not appear by name in the decision of the experts.

As a basis for its attitude on this last point, the Government of Mexico indicated that the experts, Messrs. Zevada and Cooke, when they fixed the indemnity, had in view the existence of certain liabilities against the companies and that, consequently, if the latter were subsequently released from those obligations, the indemnity would be increased by the amount of such charges in violation of the Agreement constituting the expert arbitration, which prescribed that the compensation fixed by the experts jointly could not be changed. So far as concerns the companies which were apparently omitted, it was pointed out that, unless it was shown that the experts failed to comply with the obligations which the Agreement of November 19, 1941 imposed on them, it was evident that all properties of which they had knowledge—including those of the companies which were not listed as appears from the detailed inventory which served as a basis for the valuation—were taken into account when the indemnity was determined and were covered by it.

In spite of the legal strength of the arguments invoked by its Chancery, the Government of Mexico, in view of the attitude of beneficent compromise and friendly reciprocity which has characterized all the negotiations and agreements for the purpose of putting an end to this matter, made the counter-proposal that: If the Government of the United States of America agreed to consider as included in the expert opinion the six companies not listed (including the Titania and the Mercedes), it would agree in turn to waive the obligations of the petroleum companies which the Zevada-Cooke opinion left against them; and it made clear that there would only be understood as included in the waiver the claims which were within the exclusive jurisdiction of the Mexican courts and not those suits which had been submitted or might be submitted in the future to foreign courts.

5. Now, in the last Memorandum of the Department of State, dated February 16 of the current year, the Government of the United States of America expresses its desire "to receive a more detailed exposition of the attitude of the Mexican Government in relation to the scope of the proposed waiver of obligations".

Acceding to the request of the Department of State, the Government of Mexico sets forth the following in detail: In exchange for considering the firms Cía. Petrolera Titania, S. A.; Cía. de Petróleos Mercedes, S.A.; J. A. Brown, S. en C.; Green y Cía., Doheny, Bridge

y Cía. and Cía. Naviera Transportadora de Petróleo, S.A. as expressly included in the Zevada-Cooke opinion, and their demands and claims being covered by the indemnity and interest indicated in the same opinion, the petroleum companies affected by the acts of expropriation to which these negotiations refer shall be deemed to be liberated from:

- (a) Taxes and duties not paid to the Government of Mexico;
- (b) Payments legally made by the latter for the account of the companies;
- (c) Private claims pending in Mexican courts on the date of the opinion, including claims of workers;
- (d) Private claims that have been filed or may be filed in Mexican courts and which are within their exclusive jurisdiction.

In virtue of the principle of immunity, universally accepted in international law, the Government of Mexico is not disposed to subject itself to the decisions of foreign courts. Consequently, it finds it impossible to assume the obligation of answering for the suits brought, or which in the future may be brought, in United States courts against the expropriated petroleum companies.

As will be clearly seen from reading all the foregoing, the attitude of the Government of Mexico is most strictly within the spirit and letter of the engagements entered into November 19, 1941. In agreeing to the modification, in the terms of section 5 of this Memorandum, of the third decision of the joint expert opinion of April 17, 1942 (which, from its expressions and purposes, is conclusive and unappealable) the Government of Mexico does so with the purpose of settling discrepancies and concluding this matter on the basis of cordial understanding on which it has been discussed by the two Chancelries.

Being convinced that the American authorities are animated by the same friendly disposition, the Government of Mexico makes bold to hope that the reasoning set forth in this Memorandum will receive from them all the attention it merits and that a conclusion of the negotiations initiated November 19, 1941 may soon be achieved.

WASHINGTON, July 24, 1943.

412.11 Oil/179

*Memorandum by the Legal Adviser (Hackworth)*¹

[WASHINGTON,] July 31, 1943.

On July 24, 1943 the Mexican Ambassador left with the Secretary a Memorandum dealing with the two difficulties (discussed below)

¹ Addressed to the Under Secretary of State (Welles) and to the Secretary of State. Mr. Welles made the notation: "I agree. S. W."

which have tended to prevent a final settlement of the claims arising out of the expropriation of petroleum properties in Mexico in which certain American companies were interested.

Claims of the Mexican Government and Others Against the Companies.

In the joint report evaluating the companies' claims at approximately \$24,000,000, Messrs. Cooke and Zevada recommended (a) that the Mexican Government and the companies reciprocally release each other of all pending claims, except certain alleged claims of the Government against the companies and (b) that the companies remain responsible for private claims then pending against them in the Mexican courts.

Attempts made by the Department to obtain information regarding the probable total amount of such claims have proven futile. It and the companies have been apprehensive that such claims might be determined by Mexican judicial or administrative authorities to be valid in amounts possibly equaling or exceeding the \$24,000,000 which Cooke and Zevada found to be due the companies. However, the Mexican Government has finally expressed its willingness (a) to regard as cancelled the alleged claims of the Government against the companies and (b) to relieve the companies of responsibility with respect to any private claims against them which may be determined as valid claims by the Mexican courts. It is not willing to assume responsibility for private claims against the companies which may be prosecuted in American courts.

Titania and Mercedes Properties.

The above-mentioned proposal of the Mexican Government is conditioned on our agreement that there be included in the \$24,000,000 settlement the claims of the Titania and Mercedes Companies (subsidiaries of Standard Oil of New Jersey) whose properties have been evaluated by Messrs. Cooke and Zevada and included in their total appraisal. Subsequently, the Supreme Court of Mexico held that the properties of those Companies had not been expropriated and at the request of Standard the Department has been endeavoring to induce the Mexican Government to return these extensive but undeveloped properties to the Companies, thus giving effect to the decision of the Mexican Supreme Court. However, shortly prior to the receipt of the recent Mexican note, in which it is insisted that the properties be included in the general settlement, an official of Standard indicated orally to an official of the Department that the Company was apparently willing to forego its claim to those properties if such action on its part would tend to facilitate a final settlement of the claims arising out of the expropriations.

At a conference attended by Messrs. Hackworth, Duggan,² McGurk of RA,³ and English of Le,⁴ there appeared to be unanimous agreement that the proposals of the Mexican Government are probably the best that can be expected and that they should be accepted, thus effecting a final settlement of the claims growing out of the expropriations of 1938. It is their belief that most, and possibly all, of the companies will go along with the settlement made on the proposed basis. It is also believed that a settlement of these claims will greatly facilitate negotiations in relation to the general question of future development of oil production in Mexico.

If you agree that a settlement may be made along the lines indicated the matter will be discussed informally with officials of Standard Oil Company of New Jersey, owners of the Titania and Mercedes Companies, prior to the drafting of an acceptance of the proposals made in the Mexican note.

[For text of agreement between the United States and Mexico regarding payment for expropriated petroleum properties, effected by exchange of notes signed at Washington, September 25 and 29, 1943, and for joint report, see Department of State Executive Agreement Series No. 419, or 58 Stat. (pt. 2) 1408.]

NEGOTIATION OF AN AGREEMENT BETWEEN THE UNITED STATES AND MEXICO ON A DIVISION OF THE WATERS OF THE COLORADO AND RIO GRANDE RIVERS⁵

711.1216M/2253 : Telegram

The Secretary of State to the Chargé in Mexico (Bursley)

WASHINGTON, January 30, 1943—10 p. m.

160. From Duggan. I refer to your letter of January 19, 1943, in which you submitted a draft reply to the Mexican memorandum of December 31, 1942⁶ relative to your recent informal conversations regarding the water problem.

² Laurence Duggan, Adviser on Political Relations.

³ Joseph F. McGurk, Assistant Chief of the Division of the American Republics.

⁴ Benedict M. English, Assistant to the Legal Adviser.

⁵ For previous correspondence regarding a proposed treaty on division of international waters, see *Foreign Relations*, 1942, vol. vi, pp. 547 ff. For an account of these negotiations, see article by Charles A. Timm in Department of State *Bulletin*, March 25, 1944, p. 282.

⁶ None printed. The Mexican memorandum of December 31, 1942, indicated the Mexican expectation that conversations on the water problem would proceed on a percentage of distribution basis, that new proposals would be forthcoming from the Department of State, and that the negotiations would be transferred to Mexico City (711.1216M/2242).

Because of, first, apparent tendency in Foreign Office to construe as formal negotiations your personal, informal talks; second, increasingly delicate situation in Basin created by recent upsurge of rumors and suspicions; third, probably disastrous effect upon present efforts if idea spreads that negotiations are being transferred to Mexico City; and, fourth, the necessity of making additional technical studies in the field, it is believed advisable to suggest that your next conversations await a more opportune moment. The further fact that intensive studies here and in El Paso are being conducted in closest possible collaboration with the Committee makes it impracticable to transfer the initiative to Mexico City. This suggests desirability of changing your third paragraph and also affords satisfactory explanation.

With reference to the fourth and fifth paragraphs of the Mexican memorandum it would appear desirable to suggest in your reply that when the two Governments begin formal negotiations an arrangement entirely satisfactory to the Mexican Government can no doubt be reached as to the seat of the "final conversations." We understand that this quoted phrase refers only to the formalities of signature once the two Governments have agreed upon the text of the treaty.

Your proposed fifth paragraph is in conformity with suggestions already made to the Mexican Ambassador⁷ and to Fernández MacGregor.⁸ Could it not be combined with your second paragraph in such way as to make it clear to the Mexican Government that the next move is not ours? [Duggan.]

HULL

711.1216M/2256

*The Chargé in Mexico (Bursley) to the Adviser on Political Relations
(Duggan)*

MEXICO, February 10, 1943.

[Received February 13.]

DEAR LARRY: A few days ago when I was at the Foreign Office, just as I was leaving Torres Bodet's⁹ office after talking to him about other matters, he brought up the question of the distribution of the waters of the Colorado River again, emphasizing in a number of ways the keen interest of the Mexican Government in a prompt solution. He said that it was really imperative for the Mexican Government to have a solution.

What I consider the most important point raised by Torres Bodet—although it was not the first point in the conversation—was that the

⁷ Francisco Castillo Nájera.

⁸ Mexican Commissioner, International Boundary Commission.

⁹ Jaime Torres Bodet, Mexican Under Secretary for Foreign Affairs.

Mexican Government, while it would be very reluctant to do so, had decided that in the event it could not reach a solution as between governments, it would have to ask us to submit the question to arbitration. He said that he realized this would be a very difficult and unfortunate step to take, given the excellent relations between the two countries and the fact that they had been able recently to work out so many problems. He said it would not look well for the Mexican Government to resort to this step. He also stated that the questions such as claims which had been settled were really transitory and not fundamental, and that accordingly the water question was far more important. He suggested that a solution would really cement good relations, and in this connection I understood him to say that it would not be prudent for the Mexican Government to do anything about Chamizal ¹⁰ until the water question was solved.

I do not know whether it would be wise at this particular stage to use this information in a discreet way in talking to the representatives of the Colorado River Basin States. It might, however, make something of an impression on them.

Torres Bodet asked me whether it would help us were the Mexican Government to bring up this matter in a written communication, and I told him I thought it would be better for the present not to present this suggestion of a possible demand for arbitration to us in any formal way.

I told Torres Bodet that I had been in correspondence with you regarding our reply to the informal memorandum handed to Ambassador Messersmith by Señor Padilla some time ago,¹¹ and that I thought our reply would be forthcoming very soon.

He asked me whether the Ambassador was discussing the water problem in Washington and I said that I doubted that he was dealing with any of the technical aspects, but no doubt he was discussing with the appropriate officials in Washington the well-understood desire of the Mexican Government to have the question solved.

I took advantage of this opportunity to say that the Department was awaiting the Foreign Office's reply to the Department's memorandum of November 4, 1942;¹² in this connection I said that it had been my understanding that in requesting Ambassador Messersmith to have me engage in informal conversations with officials of the Ministry on the water problem, it had been the desire of the Foreign Minister that I cooperate with these officials in the formulation of a

¹⁰ A tract of some 600 acres at El Paso, the possession of which by the United States was challenged in 1895 by Mexico and ultimately submitted to arbitration. The award split the area in such a way on such a basis that the United States refused to accept it. See *Foreign Relations*, 1911, pp. 565 ff.; *ibid.*, 1913, 957 ff., and bracketed note, *ibid.*, 1933, vol. v, pp. 823-824.

¹¹ Ezequiel Padilla, Mexican Minister for Foreign Affairs. Presumably reference is to memorandum of December 31, 1942, not printed.

¹² *Foreign Relations*, 1942, vol. vi, p. 561.

reply with a view to mutual understanding. Torres Bodet said that his understanding of the motives behind the Minister's request was that the Minister desired to accomplish two objectives: namely, to expedite negotiations and particularly to try to avoid exchanges of polemics on the subject. (It seems to me that this is a rather revealing statement and explains the subsequent action of the Foreign Office in endeavoring to precipitate matters much more than had been the Department's intention or mine. If the Ambassador is still available, I wish you would be good enough to check with him as to the Minister's explanation of why he wanted this Embassy to have informal collateral talks to supplement the activities going on concurrently in Washington.)

I also said to Torres Bodet that I imagined our reply to Padilla's informal memorandum would probably indicate a willingness on our part to have the eventual water treaty signed in Mexico City, but that I thought the Department, because of the greater accessibility of data and its missionary work with the Committee of Sixteen,^{12a} would prefer to have actual negotiations remain in the United States as at present. Torres Bodet said that he thought it would be helpful to Mexico were the treaty signed here, but he appeared to be convinced that some of the negotiations could take place in Mexico City, although he did indicate that it might possibly be a good idea to take no further action until the Ambassador returns here.

Sincerely yours,

HERB

P/s—In reading over the third paragraph to begin on page 2, I find that I have not made as clear as I had intended the distinction between what I had understood to be Padilla's desire, and the Minister's desire as explained by Torres Bodet. The distinction is this: It was my understanding that a reply would go forward to our memorandum of November 4, but that it was thought advisable to have me go over the Mexican reply with officials of the Foreign Office before it was in final form; as I understood the statement of Torres Bodet, it was to the effect that the Minister thought a lot could be accomplished orally without the necessity for further written exchanges. I think the Ambassador understood that the conferences were primarily with a view to having the reply to the memorandum of November 4 as satisfactory as possible to us, or at least to explore the possibility of having it as satisfactory as possible. If it is the case that the Minister did not explain accurately to the Ambassador his, the Minister's, desires in the matter, this would seem to be the whole nub of the misunderstanding which seems to have developed. However, by dwelling on this point I do not mean to suggest that any harm has been done or that the Embassy is in a position from which it cannot withdraw. HSB.

^{12a} Committee composed of two representatives of each State of the Basin and two from the Power Allottees who take electric energy from Boulder Dam.

711.1216M/2257

*The Chargé in Mexico (Bursley) to the Adviser on Political Relations
(Duggan)*

MEXICO, February 11, 1943.

[Received February 13.]

DEAR LARRY: I refer to my letter of February 10th regarding the water matter.

I have just found time to read the latest batch of papers from the Department regarding the Colorado River question, and note on page 4 of Dr. Timm's ¹³ memorandum of conversation dated January 25th ¹⁴ a reference to the risk we might run were this matter ever submitted to international arbitration.

The reference to the possibility that Mexico might make a cut just below the upper boundary smacks somewhat of Federal Project No. 5 on the Rio Grande.¹⁵ That is to say, it would be difficult for our Government to object should Mexico undertake the cut on the Colorado River in Mexican territory.

Sincerely yours,

HERB

711.1216M/2261

Memorandum From the Mexican Ministry for Foreign Affairs ¹⁶

[Translation]

DISTRIBUTION OF THE WATERS OF THE COLORADO RIVER

The Government of Mexico has given most careful attention to the Memorandum of the Department of State dated November 4, 1942 ¹⁷ relative to distribution of the waters of the Colorado River.

Before commenting in detail concerning each of the points contained in the Memorandum under reference it is pertinent to analyze certain fundamental discrepancies which may perhaps explain the little progress made to date in the negotiation of a water Treaty between Mexico and the United States of America.

At the outset the Government of Mexico reiterates its stand of dealing uniformly with the problems arising from the utilization of the waters of the Bravo ¹⁸ and Colorado Rivers since, as will hereinafter be made manifest, the application of differing standards to the

¹³ Charles A. Timm, Divisional Assistant, Division of the American Republics.

¹⁴ Not printed.

¹⁵ A proposed valley gravity canal and storage project for the lower Rio Grande valley in Texas.

¹⁶ Transmitted to the Department by the Chargé in Mexico with his letter to the Adviser on Political Relations (Duggan), February 19, 1943, *infra*.

¹⁷ *Foreign Relations*, 1942, vol. vi, p. 561.

¹⁸ Mexican name for the Rio Grande River.

two international currents mentioned would lead to inequitable solutions.

Secondly, it cannot accept that the theory of a supposed right based upon priority of use should become a fundamental rule to decide the problem of distribution of the waters of international rivers, and it also considers inadmissible that the proposal of the United States of America for the delivery of waters of the Colorado River to Mexico should base itself exclusively upon compliance with and protection of Mexican uses prior to the completion of Boulder Dam. The reasons for the foregoing attitude derive from the fact that if in the case of ownerless things or things over which there is no established right, the mere occupation and priority of use thereof can produce the erection of a right over such things, this does not apply as regards those properties concerning which there is a right prior to any occupation or utilization; this latter right implying the faculty, precisely, of using or utilizing the thing as occasion may permit, or at the will of the holder thereof. In the case of the waters of the Colorado and Bravo Rivers Mexico has the right to their use and utilization, derived from existing Treaties between the two countries and from the norms of International Law which regulate the joint relations of neighboring countries with relation to international rivers flowing between them and, therefore, this right is prior, principal and independent in relation to any act, and against it there can prevail neither occupation nor priority of use. Furthermore, the thesis expressed by the Department of State does not appear to be very fair since, if it were applied in the case of the Bravo River it would produce the conclusion that the United States of America shall receive only the waters indispensable to satisfy the needs of utilization in the Brownsville Valley prior to the construction of hydraulic works on the Conchos River;¹⁹ which, having regularized the principal supply of water flowing in the Lower Bravo River and having supplied the most permanent stream in the dry season, made possible the greater part of present uses in the American region mentioned.

Lastly, neither can the Government of Mexico admit that the question be reduced exclusively to determining what would be the volume of excess water in the Colorado River after satisfying all present utilizations and all projects for future uses in American territory; so that Mexico would be constrained to receive only the excess volume which would not be utilizable for the United States of America. Application of this principle to the Bravo River situation would result in the conclusion that Mexico would be authorized to utilize all the current of the Mexican tributaries, even to the employment of their waters—especially those of the Conchos—in tappings outside of their

¹⁹ A tributary of the Rio Grande River in Chihuahua state, Mexico.

basins; the Lower Bravo users to be content with the volumes which might be left over even though thereby many of the present utilizations on the American side of the Lower Bravo River might be rendered impossible. The Government of Mexico considers that both situations are absolutely unfair and reiterates its opinion that the waters of international rivers must be distributed among the riparian countries in proportion to the areas susceptible to irrigation in equality of hydraulic conditions; in such a manner that if there should be insufficient water to satisfy them all there be mutually eliminated projects which present the same characteristics of high cost and difficulty of realization. It is not clearly seen why, with the object of fixing American needs to the waters of the Colorado, there are considered future projects of costly execution and extractions from the basin and, on the other hand in evaluating the demands of Mexico there are eliminated not only easier realizations and its urgent needs for the immediate future, but even projects under development and even a certain number of present utilizations.

From the above, it is to be hoped that the situation with respect to the Colorado River be fixed with the same spirit of fairness and equality with which the problems of the Bravo River are being viewed.

Going on to a detailed consideration of the various technical questions raised in the Memorandum of the Department of State to which reference is being made, the principal points of discrepancy are enumerated below:

1. The Government of Mexico affirms that it is by no means bound by the "Colorado River Agreement" executed among the American States bordering on the basin of the river mentioned, and the "Federal Law Regarding the Boulder Canyon Project".²⁰ But if endeavor were made to apply the said agreement, it would be in order to recall one of its stipulations which disposes that—in case a Treaty with Mexico is signed and that the water thereby to be delivered to our country should exceed the available excess in the hydraulic system of the river—the amount lacking would be supplied in equal parts by the two groups of States in which the general basin of the Colorado in the territory of the United States of America was considered divided.

2. Neither the amount of 19,744,000,000 cubic meters (16,000,000 acre-feet) fixed as initial distribution to be used for beneficial purposes in the United States of America, nor the amount of 2,468,000,000 cubic meters (2,000,000 acre-feet) which Mexico desires to receive, represent the maximum volumes which might be utilized in the two countries. It is borne very much in mind that by tapping out of the basin of the Colorado River, by carrying out pumping irrigation projects at

²⁰ The Boulder Canyon Project Act of 1928 (45 Stat. 1057) provided congressional approval for the Colorado River Compact, an agreement among the Basin States by which the waters of the Colorado River were apportioned between States of the Upper Basin and those of the Lower Basin.

very high rates and by irrigating very poor quality land volumes in excess of double the river's total current could be consumed. The problem, therefore, hinges on directing the question within the applicable norms of International Law and fixing equitable distribution figures, bearing in mind the proportion between the possibilities of comparable agricultural utilization existing in the two countries.

3. It is admissible that the group of States of the lower American basin will have to use 789,760,000 cubic meters (640,000 acre-feet), more than the assignment fixed for them by the respective Agreement;²¹ but on the other hand, there would be a considerable leftover in the rate fixed for the States of the upper basin. In effect, in accordance with the data in possession of the Mexican technicians, this upper basin would be unable to use the 9,255,000,000 cubic meters (7,500,000 acre-feet) assigned to it by the Colorado River Agreement, so that there will be a considerable excess, which added to the 2,468,000,000 cubic meters (2,000,000 acre-feet) difference between the total initial current of 22,212,000,000 cubic meters (18,000,000 acre-feet) with that of 19,744,000,000 cubic meters (16,000,000 acre-feet) distributed in the said Agreement, results in an available volume which we consider sufficient to take the 789,760,000 cubic meters (640,000 acre-feet) which, according to the American memorandum, are lacking in the lower basin, the losses by evaporation in the basins, the 2,468,000,000 cubic meters (2,000,000 acre-feet) of Mexican dotation and there would still be an excess for future uses in normal periods.

4. The hydraulic studies made in Mexico—which took into consideration periods of scarcity, losses by evaporation in basins, et cetera, since it would be inconceivable that a serious hydraulic study should overlook these factors—show that even in the periods of ten or more years of scarcity, Mexico can be supplied with the 2,468,000,000 cubic meters (2,000,000 acre-feet) per annum. In those extraordinarily scarce years when it would not be possible to make such delivery, Mexico would have no objection to a reduction of its portion in a percentage equal for all utilizations of the Colorado River.

5. The data on which the Mexican study was based include the year 1938 and are, therefore, recent. Their degree of exactness is demonstrated by the fact that in that study the average initial flow of the river is considered at 22,212,000,000 cubic meters (18,000,000 acre-feet) which coincides with the figure cited as the most recent in the Department of State's Memorandum.

6. The average flow of 17,893,000,000 cubic meters (14,500,000 acre-feet) in the scarce period of 1930–40 cannot be taken as a basis to maintain that there is no water available, since in a hydraulic study, when the river under reference contains a large storage dam, such as Boulder Dam with a capacity of more than 38,254,000,000 cubic meters (31,000,000 acre-feet) a scarce cycle is favorably modified by the original storage the function of which is precisely that: supply the deficiencies of the scarce periods with water stored in the abundant periods. The period from 1920 to 1929 was an excessively abundant

²¹ The Compact assigned 7,500,000 acre feet per year to the Upper Basin and the same amount to the Lower Basin, with the right, however, to increase this amount by 1,000,000 acre feet per year.

one, therefore the beginning of the scarce period would surely have found the dam full and this would have made it possible to supply the deficiencies of the scarce years. At any rate this matter should be the subject of a joint study by technicians of the two countries.

7. It is possible that only in three of the eleven years comprised from 1930 to 1940 the amount of 2,468,000,000 cubic meters (2,000,000 acre-feet) could have been furnished to Mexico, after supplying the projects under construction in the lower American basin; but it is clear that this amount could have been furnished without restricting those developments by using the excess allowed to the States of the upper basin which could not have been able to consume it entirely.

8. The Government of Mexico does not accept that the problem under study be reduced to determining what the volume of water used in Lower California was before 1935. Nevertheless it is good to observe that the cultivated surface in Mexico from 1925 on was affected more than by hydraulic factors, by the economic conditions which at that time were applicable throughout the world and which also affected cultivated surfaces in the United States of America. In Mexico from 1925 to 1929 surface remained practically the same. From 1930 to 1933 the world depression which considerably lowered the price of cotton, the only cultivation at Mexicali, caused the cultivated area to be greatly reduced. From 1934 on in spite of this having been the year of greatest scarcity, an improvement in the price of cotton and the establishment of other crops, such as wheat, contributed to the rapid increase of the area cultivated.

9. It is too venturesome to assert that the increase in the use of Colorado River water in Mexico, beginning with 1935, was due to the construction of the hydraulic system of Boulder Dam. In accordance with the conditions under which the concession of the *Cia. de Terrenos y Aguas de la Baja California, S. A.*,²² was operated, the area cultivated in this portion of Mexican territory before the construction of the dam had not reached its maximum development and, further, the foregoing point has already outlined the economic factors which gave rise to the extension of irrigated surfaces after 1935.

On the other hand, there has been borne very much in mind the benefit resulting for Mexico upon receiving the volume of water regularized by the hydraulic works effected in territory of the United States of America; therefore the irrigation of a considerable surface of good land has been abstained from, susceptible of easy and economic cultivation, and its pretension has been limited to 2,468,000,000 cubic meters (2,000,000 acre-feet). Unquestionably, if the irrigable surface, the necessities, and the absolute right of Mexico should be attended, it would be necessary to fix a volume much greater than that mentioned, derived from the irregular and uncontrolled flow of the Colorado River.

10. The volume offered by the Government of the United States of America, of 1,419,000,000 cubic meters (1,150,000 acre-feet) is insufficient to assure even the present utilizations being effected in Mexican territory in Lower California. As has already been said, the amount of 2,468,000,000 cubic meters (2,000,000 acre-feet) is much

²² A subsidiary of the Imperial Irrigation District of Southern California. The latter was a public corporation which operated all the facilities involved in carrying water from the Colorado River to the Imperial Valley.

less than the volume to which Mexico would have a right; it has been fixed considering the lower limit of Mexican needs, a fair division of the waters of the river and the control and regularization supplied by the American works. Similarly, due consideration was given to the fact that this volume of water can be furnished by the United States of America the greater part of the time without important sacrifices in its utilizations and, for the extraordinarily scarce cycles which imply insufficiency of the available flow in spite of the storage systems, Mexico is willing to a reduction of its allocation by means of a proportional pro rata of the water between the two countries.

In view of the above, and by virtue of the fact that the Bravo and Colorado Rivers problem requires urgent and undeferable decision the Government of Mexico begs to suggest to that of the United States of America that the matter be placed entirely in the hands of the respective Limits Commissioners²³ with instructions to the effect that existing differences be mutually decided within a brief period and that they determine with precision the data upon which they may not be able to agree.²⁴ In the meantime the two Chancelleries could study an amicable and fair procedure for the mutually satisfactory adjustment of the discrepancies between their Limits Commissioners.

MÉXICO, D. F., February 16, 1943.

711.1216M/2261

*The Chargé in Mexico (Bursley) to the Adviser on Political Relations
(Duggan)*

MEXICO, February 19, 1943.

[Received February 22.]

DEAR LARRY: I refer to our airgram 360 of February 17th²⁵ reporting the receipt of a memorandum from the Foreign Office²⁶ regarding the Colorado River matter. I have had a rough translation made of the memorandum and enclose it as a precaution against there being any discrepancy in the drafts delivered to the Department and presented to me, respectively.

I have found time to give several readings to the memorandum, but not to study it thoroughly. Therefore all I can say regarding it for the moment is what follows:

²³ International Boundary Commissioners, L. M. Lawson and Fernández MacGregor.

²⁴ In its short reply to this memorandum, dated May 15, 1943, the Department of State agreed that a determination of sound assumptions should provide a basis for a workable formula, and stated that therefore it was instructing its Boundary Commissioner to confer with the Mexican Boundary Commissioner on technical questions to which solutions were necessary before treaty negotiations could begin (711.1216M/2253).

²⁵ Not printed.

²⁶ Memorandum of February 16, *supra*.

There may be no disadvantage in the linking of the Colorado River and the Rio Grande problems in the memorandum, if the linking goes no further. But I should think that even one step more, if it were known, would cause misunderstanding in the Lower Basin of the Colorado. I get the very general impression that the memorandum of February 16th is none too strong technically but that morally it might carry considerable weight in the minds of arbitrators. The Foreign Office seems to have gotten away from the wholly unsound idea of transferring negotiations down here, but it has gone back to the proposal to have the Boundary Commissioner find a solution. Despite all that has been said in Mexico City, El Paso, and Washington, the Foreign Office still does not seem to realize, or be willing to understand, that although the problem has many technical aspects it has some complicated political aspects in the United States which simply cannot be resolved by engineers dealing with engineering data, however competent they may be and however great their good will.

I am greatly relieved by the general cordial tone of the Mexican memorandum.

Sincerely yours,

HERB

711.1216M/2253

Memorandum by Mr. Charles A. Timm of the Division of the American Republics to the Adviser on Political Relations (Duggan)

[WASHINGTON,] February 19, 1943.

MR. DUGGAN: A hasty examination of this memorandum²⁷ leads to the following observations:

1. Insofar as theoretical argument is concerned, it presents nothing new.

2. The clear implication that the United States may expect the same treatment in regard to the Rio Grande as Mexico receives in regard to the Colorado is not a new development but is stated more strongly than heretofore. However, it should be noted that, as to the Rio Grande:

a. The Mexican Section,²⁸ in 1929-1930, upheld the right of each country to the full use of the tributaries located wholly in the respective states.

b. The present memorandum tends to infer, but does not state, that Mexico is now willing to treat the Rio Grande upon a new basis, presumably at least to the extent of protecting existing developments in the Lower Valley of Texas.

²⁷ *Ante*, p. 596.

²⁸ Of the International Boundary Commission.

c. As matters stand, the Department can not consider this angle of the general problem in dealing with the Committee of Sixteen.

3. The memorandum is on pretty sound ground when it notes that if costs be disregarded the United States could eventually use double the supply of the river.

4. The reference to norms of international law is not very helpful. The only practical application made is in the statement—often made in the past by Mexico—that the waters should be divided in proportion to areas irrigable under similar conditions. This may be little more than a Mexican rationalization.

5. The only indication that Mexico recognizes the benefits it derives from United States works is in the assertion that this recognition is given in the reduction of Mexico's claim from 3,600,000 acre-feet to 2,000,000 acre-feet.

6. Comments upon the enumerated paragraphs follow:

(1). The Compact provisions relating to any future allocation to Mexico prescribed merely a procedure, not a right *per se*.

(2). It is difficult to believe that "applicable principles of international law" should be thus defined or restricted, i.e., to limit developments to older modes.

(3). The memorandum refrains from stating how much of the 7,500,000 acre-feet the Upper Basin can consume. Debler²⁹ and others admit that this amount can not be consumed except with the aid of trans-mountain diversions. The admission by Mexico that the Lower Basin will need 9,340,000 acre-feet may be important.

(4). The point need not be pressed that, after all, the earlier studies in Mexico probably did overlook some or all of these factors. The agreement to accept a proportionate reduction in extremely dry years may prove quite useful in the preparation of formulas and tables.

(5). This is an admission that the data used in the Mexican memorandum of March 19, 1942,³⁰ are unreliable. The data used are now different, but the figure of 2,000,000 acre-feet remains the same.

(6). As a general proposition this is true. In the present case it is complicated by the factor of power production, not alluded to at all in the Mexican memorandum. The reference to the need of a common study by experts anticipates the proposal made in the concluding paragraph of the memorandum.

(7). This paragraph of the memorandum is not altogether clear. It admits that our calculations are correct but then seems to suggest that the Lower Basin needs could have been supplied from the unused portion of the allocation to the Upper Basin, forgetting that in those same dry years the Upper Basin would probably have suffered deficiencies. The general sense is the same if the last clause means that the Mexican quota could have been met by using the Upper Basin surplus.

²⁹ E. B. Debler, Hydraulic Engineer, Bureau of Reclamation, Department of the Interior.

³⁰ *Foreign Relations*, 1942, vol. vi, p. 548.

(8). Our calculations on maximum Mexican development before 1935 ignored the depression years. On account of periods of low run-off it may be doubted it [*if*] development in either country could have been carried safely beyond the maximum reached before the construction of Boulder Dam. Mr. Lawson has records of shortages to sustain this view.

(9). This paragraph is partially contradicted by the later statement that the value of Boulder Dam to Mexico was taken into consideration. The statement about the Company is too vague to have any value.

(10). For the most part this is repeating arguments made in the memorandum of March 19, 1942. However, the agreement to accept a proportional reduction in extremely dry cycles may afford an opportunity to develop a formula based on percentages rather than on global amounts. Considering the status of water rights in the Basin States it should be borne in mind that reductions in releases are not prorated but operate to eliminate uses beginning with the use having the lowest order of priority.

7. Considering the memorandum as [a] whole, it may be observed that, although it appears to be somewhat categorical, certain concessions have been made, as follows:

a. The implication that Mexico is prepared to abandon its theory regarding tributaries if we give more generous treatment to Mexico in Baja California. (On the other hand, this may also be regarded as a threat which, considering Project 5, can probably be ignored.)

b. The acceptance of our figures on the water supply of the Colorado, suggesting their dependence upon our technical data.

c. The admission, in effect, that 9,340,000 acre-feet will be needed in the Lower Basin. Mr. Tipton³¹ and others place the need at something more than 10,000,000 a.f.³²

d. The virtual admission that the Compact allocations refer to consumed, not to diverted, water.

e. The admission that 2,000,000 a.f. can not be supplied to Mexico in exceptionally dry years. This may provide the needed point of departure; obviously, 2,000,000 a.f. can be supplied when releases are 12,000,000 a.f. or more.

8. The concluding paragraph was to have been expected in view of recent developments in Mexico City. The effort to transfer the initiative to Mexico having failed, the second choice is El Paso-Juarez. What this may mean, in effect, is the suggestion of a joint survey, with power of decision, by the International Boundary Commission. In other words, the Mexican Boundary Commissioner would have the power of veto over future United States projects, with special reference, probably, to trans-mountain diversions and such projects as the Parker-Phoenix high-line canal. This interpretation does not, however, necessarily follow.

³¹ R. J. Tipton, Consulting Engineer, Colorado Water Conservation Board.

³² Acre-feet.

The last sentence probably refers to arbitration. This is in line with suggestions, having something of the nature of threats, made recently to Mr. Bursley in Mexico City. It is a matter well worth watching.

It is worthy of observation that Mexico still gives no evidence of understanding the difficult political situation faced by the Department in its efforts to solve the Colorado River problem.

711.1216M/2257

The Adviser on Political Relations (Duggan) to the Chargé in Mexico (Bursley)

WASHINGTON, February 22, 1943.

DEAR HERB: Your letters of February 10 and 11, 1943 in reference to the Colorado River problem give additional evidence that the Foreign Office attempted, no doubt with the best intentions, to steer the matter along lines that might well have proved disastrous. Needless to say, the Department, no less than the Mexican Foreign Office, is desirous of finding an equitable solution; but before deciding upon a formula we must know pretty definitely what the cost to the United States would be in terms of limitations upon the future of the Colorado River Basin.

Torres Bodet's suggestion that the Mexican Government might ask us to refer the matter to arbitration was not unexpected. This possibility has been discussed more than once with and among members of the Committee of Sixteen. The elaborate arguments presented by the California members to the effect that no arbitral body could properly hold against us afford some cause for suspicion that they really fear the consequences of an arbitral proceeding. On this point you may recall paragraph 7, page 27, of the Report of December 23, 1942,³³ on the Denver and El Paso meetings. All things considered, it would appear to be highly inadvisable for the Mexican Government to bring up at this juncture the question of arbitration. However, in our discussions with the Committee we shall not fail to keep in mind the possible dangers to us of an arbitral settlement.

In your letter of February 11 you made an interesting comparison between Federal Project No. 5 and the proposed Mexican heading below the Upper Boundary. I detect what seems to me to be a substantial difference. As was noted in the memorandum of conversation

³³ Report by Charles A. Timm, of the Division of the American Republics (not printed), of meetings with Bureau of Reclamation and International Boundary Commission officials and with a sub-committee of three of the Committee of Sixteen.

of January 25³⁴ (page 4), a cut in the right bank of the Colorado would greatly increase the flood danger in that it would create a situation wherein the river might once more break through to the Salton Sea. You will recall that there is a rapid drop in altitude from the Alamo heading in the river to the Imperial Valley (California). No comparable danger to either country is inherent in Federal Project No. 5. This matter has angles that we are not overlooking.

The Foreign Minister's suggestion that, as regards the memorandum of November 4,³⁵ something might be accomplished at that end by informal conversations without written exchanges of any kind agrees with my original idea respecting these talks about the whole water problem.

Copies of these two letters from you have been handed to Mr. McGurk³⁶ for the information of Ambassador Messersmith.

Sincerely yours,

LAURENCE DUGGAN

711.1216M/2258

*Memorandum by Mr. Charles A. Timm of the Division of the American Republics*³⁷

[WASHINGTON,] March 5, 1943.

Sometime ago, in a conversation with Mr. Bonsal, I undertook to prepare a memorandum setting forth some of the basic factors of the Colorado River problem.

A previous memorandum (November 12, 1942)³⁸ summarized the position taken by the several States of the Colorado River Basin in regard to the proposed water treaty.

The present memorandum has as its purpose an analysis of the more essential factors that must be considered in drawing up the terms of a treaty. Also it presents some tables³⁸ illustrating the effects of certain alternative plans of allocation.

This memorandum and the accompanying tables have been examined by Mr. Duggan, Commissioner Lawson, Judge Clifford H. Stone, Chairman of the Committee of Sixteen, and Mr. R. J. Tipton, Consulting Engineer of the Colorado Water Conservation Board.

³⁴ Not printed.

³⁵ *Foreign Relations*, 1942, vol. VI, p. 561.

³⁶ Joseph F. McGurk, Assistant Chief of the Division of the American Republics.

³⁷ Addressed to John W. Carrigan and Joseph F. McGurk, of the Division of the American Republics, and to Philip W. Bonsal, Chief of the Division.

³⁸ Not printed.

It has been tentatively agreed that a formula, based upon Table III (1,500,000 a.f. on a base release of 10,000,000 a.f.), will be submitted to the Committee. This proposed formula has these features:

1. The amount of water allocated as a base (1,500,000 a.f.) is divided into two amounts:

a. 750,000 a.f. to be delivered at the boundary in accordance with a schedule of demand presented by Mexico.

b. 750,000 a.f. of additional water in such amounts and at such times at [as] it may be in the river below Imperial Dam.

2. The above allocations are to be increased or decreased by the percentage that the total annual releases from Boulder are greater than or less than 10,000,000 a.f.

3. All waters crossing the boundary line shall be considered as delivered to Mexico. The United States will divert from the river and deliver to the Mexican canals at the boundary line all water available in the river up to the requirements of Mexico or to the full capacity of such canals.

4. Certain technical questions, such as allowances for flood flows and winter flow, and the operations at Boulder Dam, will be the subject of conferences during the week of March 8 with the Bureau of Reclamation.

Although it is doubted that this formula will be acceptable to Mexico, it is thought that it represents a stage through which the negotiations must go, both with the Committee and with Mexico, assuming it meets with the approval of the Committee.

711.1216M/2272

Memorandum by Mr. Charles A. Timm of the Division of the American Republics to the Adviser on Political Relations (Duggan)

[WASHINGTON,] March 15, 1943.

MR. DUGGAN: In our conferences with Judge Stone, Mr. Tipton, and Mr. Debler something like a consensus has been reached on the following points:

1) The United States is to deliver to Mexico each year at designated points on or near the international boundary, with distribution through the year as required by Mexico, an aggregate amount of water equal to 10 per cent of the diversions for that year from the Colorado River for use in Arizona, California, and Nevada of waters divertible from the Colorado River at or above Imperial Dam.

2) Mexico is to have the right to use in any one year a maximum of 2,000,000 a.f. of surface waters of the Colorado River arriving at the international boundary including deliveries specified in (1) above. The United States agrees to make available each year a minimum of 1,250,000 a.f.

We are now in the process of attempting to draft in more elaborate and specific terms the details of the above principles with particular reference to points of delivery and types of water to be chargeable to Mexico. Under present conditions demand water under Section I would amount to about 450,000 a.f. The additional assured water would be available for Mexico but would not be delivered on demand. This demand water could easily be used to firm up all of the remainder of the 1,250,000 a.f. and perhaps considerably more.

In defining water chargeable to Mexico, it is proposed to except certain winter and flood flows.

As to procedure, we shall attempt to agree upon a fairly definite formula and then meet with Commissioner Page³⁹ some time Wednesday.

*Bon voyage!*⁴⁰

711.1216M/2306

Memorandum by the Legal Adviser (Hackworth) to the Secretary of State and the Under Secretary of State (Welles)

[WASHINGTON,] April 23, 1943.

Pursuant to prior arrangements, Messrs. Timm, McGurk and myself, of this Department, accompanied by Commissioner Lawson and three members of his staff—Messrs. Clayton, Legal Adviser, Lowry, and Ainsworth, Engineers⁴¹—attended the meeting of representatives of the Colorado River Basin States at Santa Fe, New Mexico, April 14, 15 and 16. The Basin States, including the irrigation and power interests, were represented by approximately 50 people.

We presented, on April 14, a proposal in brief guaranteeing (a) the delivery to Mexico each year of an amount of water equal to 10% of the diversions for that year from the Colorado River for agricultural and domestic use in the States of Arizona, California and Nevada (this amount is estimated at around 750,000 acre-feet, the maximum amount used by Mexico prior to construction of the Boulder Dam, and may, if necessary, be taken from the reservoir), and (b) the delivery of an additional amount of not less than 750,000 acre-feet in any year from other water arriving and being available at the International Boundary from the river (this water represents that which may be divertible from the surplus water now going to Mexico through

³⁹ John C. Page, Commissioner of the Bureau of Reclamation.

⁴⁰ For documents concerning Duggan's trip with Vice President Wallace, see vol. v. pp. 55 ff.

⁴¹ Frank B. Clayton, Robert L. Lowry, and C. M. Ainsworth were employees of the American Section of the International Boundary Commission.

the river channel under ordinary conditions). The proposal stated that the maximum deliveries under (a) and (b) should not exceed 2,000,000 acre-feet in any one year, and that deliveries in excess of the amount specified in (a) and the minimum amount specified in (b) shall be subject to the availability of such excess water at the International Boundary. In other words, the proposal does not contemplate a guarantee of water in excess of approximately 1,500,000 acre-feet.

It was generally considered that for the time being and for some years to come most, if not all, of the guaranteed 1,500,000 acre-feet referred to in (a) and (b) can be taken from the river at the border without interfering with power and irrigation projects in the United States, but that should this prove to be insufficient at any time to meet the needs of Mexico, other water shall be released from the Dam to make up the deficiency, there being certain qualifications with respect to Mexico's ability beneficially to use the water, and the possibility of extraordinary drought or serious accident to the irrigation system in the United States. There would be a certain amount of so-called "wild water" which Mexico could capture from time to time but we would enter into no undertaking regarding it.

The Committee of Sixteen representing the Basin States adopted a resolution approving in principle our proposal and specifying that it is the consensus of the Committee that the quantity of water required to be delivered shall be treated as a maximum quantity and that the ultimate quantity of water to be delivered under the provisions of any treaty be kept within such limitations. Five States, Arizona, Colorado, New Mexico, Utah and Wyoming, voted in favor of the resolution. Nevada, whose representative arrived late and was unable to participate in all the discussions, did not vote. California, and the power and irrigation interests in that State, cast two negative votes, there being a sharp difference of view between the Californians and the representatives of the other States.

In addition to the foregoing the Basin States, other than California, presented a "Statement of Policy"⁴² providing that the facilities constructed and to be constructed and used for the delivery of water to Mexico under any treaty should be under the control of and operated by the United States; that the channelization of at least the international section of the Colorado River and the construction of flood control facilities on the Gila River are of paramount importance; and that these matters should be included in the negotiations with Mexico and made a part of any treaty relating to the allocation

⁴² Not printed.

of waters of the Colorado between the United States and that country. This, if carried out, would, among other things, result in the taking over by the Federal Government of certain facilities now operated by the California interests. The proposal was strongly opposed by the representatives from California but was approved by the other States. The discussion, in which we took no part, was somewhat heated. The action taken both on the resolution referred to above and on this "Statement of Policy" constitutes the first decisive step taken by the six Basin States against the opposition of California.

The California interests are relying upon contracts concluded with the Secretary of the Interior relating to irrigation and power,⁴³ on the strength of which large issues of bonds have been floated. They realize that if a certain amount of water is guaranteed to Mexico, the time may come when they will be required to give up some of the water they are now using or may use under these contracts. They desire that some provision shall be incorporated in the treaty safeguarding the contracts. I told those who spoke to me about the matter that we could make no commitments in that respect but would, of course, consider any statement which they might desire to present. One or two had asked permission to file a statement with the Department.

Dr. Timm, who made notes at the meetings, will prepare and submit a more comprehensive report.⁴⁴

GREEN H. HACKWORTH

P.S. Mr. Lawson is to submit to the Department a suggestion regarding the approach to be made to the Mexican Government, it being the understanding that we shall not, at least in the first instance, offer Mexico the maximum amount which we might eventually be prepared to make available. There are a number of questions to be discussed in connection with the negotiations, such as facilities to be provided for delivery of water to Mexico, protective works in that country to safeguard the Imperial Valley of California, etc., all of which will involve considerable expenditures of money.

⁴³ The Secretary of the Interior entered into a series of contracts to operate, maintain, and amortize the Boulder Canyon Project by 1987. Contracts to sell electric energy were made with the State of Nevada, the Department of Water and Power of Los Angeles, the Southern California Edison Company, the California Electric Power Corporation, the Metropolitan Water District of South California, and the cities of Pasadena, Glendale, and Burbank.

⁴⁴ Report of June 9, addressed to Messrs. McGurk, Bonsal, and Duggan, not printed.

711.1216M/2337

The Ambassador in Mexico (Messersmith) to the Under Secretary of State (Welles)

MEXICO, May 13, 1943.

[Received May 14.]

DEAR SUMNER: Padilla called me to the Foreign Office last evening and when I got there I found a meeting in progress in his office. It broke up shortly after I arrived and Suárez, Garfías, Zevada and General Jara ⁴⁵ were among those who came out. When I got in to Padilla's office I found Marte Gómez, the Minister of Agriculture, still there.

Padilla opened the conversation by saying they had just had a special meeting of various members of the Cabinet and officials of the Government in order to discuss, at the urgent instructions of the President, the question of water for the Mexicali district. He said that in the meeting which had just ended they had gone into the situation as it stood very fully under these instructions of President Avila Camacho and he had asked Marte Gómez to remain for the conversation with me as Marte Gómez was the member of the Cabinet primarily interested and responsible.

He then went on to say that in the district of Mexicali there are some 36,000 hectares of cultivated land which are almost entirely dependent upon waters from the United States for the irrigation system, the unusually dry season in both that region of the United States and Mexico had aggravated the water situation and that the people living on these 36,000 hectares and their crops were in *immediate* danger of catastrophe.

In order to meet this situation the Mexican Government had entered into an arrangement with the Imperial Valley Irrigation District for supply of some urgently needed water for which Mexico would pay at the rate of 25 cents an acre foot. It now appeared that difficulties had developed about the delivery of this water and in view of the urgency of the matter the Mexican Government had sent several people up to Washington to talk over the matter, I believe with the Department of the Interior. Apparently grave obstacles had arisen so that the Foreign Office here urgently instructed the Mexican Embassy in Washington to take up the matter with the Department of State and Padilla said that Colina ⁴⁶ had been in the Department twice to talk with us but he was not able to say with whom. The replies which Colina got, Padilla said, were not very encouraging.

In view of the really disastrous situation which was arising in the

⁴⁵ Mexican Cabinet officers.

⁴⁶ Rafael de la Colina, Mexican Minister Counselor.

Mexicali district the President had called some of them in for a meeting yesterday morning and instructed them to have a Cabinet meeting in the afternoon. This meeting had just terminated and it was the unanimous opinion of those present that the situation was serious from many points of view and that I should be asked to come in so that I could take up the matter with you. It seems that yesterday morning the President indicated to Marte Gómez that he considered the situation in Mexicali of sufficient importance to take it up directly himself with President Roosevelt, in view of the fact that a disaster in the Mexicali district could have such unfavorable repercussions on the policies both Presidents were trying to follow.

I think the Cabinet meeting last evening was held on [*in*] order to see if such direct intervention by President Avila Camacho with President Roosevelt could not be avoided.

Padilla and Marte Gómez said that they did not like this arrangement with the Imperial Valley Irrigation District any more than perhaps some of us did. They were obliged to enter into this agreement because of the urgent necessities of the case and to pay an exorbitant sum for the water and in entering into this agreement with the Imperial Valley Irrigation District the Mexican Government did not intend in any way to create a precedent. They were acting only under immediate and urgent necessity. They said that if there were a water agreement so ardently to be hoped for they should be getting this water for nothing.

Padilla asked me to get in touch with you immediately and impress upon you the really urgent and immediate importance of this matter, for if there is no water in the immediate future all the crops in this district will be ruined and he and Marte Gómez emphasized the unfavorable impression the ruin of these people and their crops would have in Mexico and how much more difficult it would make the policies which they are following with us.

After Marte Gómez left the room Padilla told me that he had particularly wanted Marte Gómez there, as had the President, as it was necessary that Marte Gómez know that he, Padilla, and the Ministry were making all possible efforts to get this water immediately. As you know, Padilla is criticized a good deal by some of these Ministers, and quite improperly, and the President knows this also.

There is no doubt as to the importance of this matter and as the arrangements which the Mexicans have made with the Imperial Valley Irrigation District are not to be considered a precedent and are only caused by dire necessity there is in my mind no doubt that we should make possible the delivery of this water this season. I can assure you that they were not staging a show for me but that this matter is a serious one for the Government here, as well as for the Mexicali

area. The fact that President Avila Camacho considered taking up the matter directly with President Roosevelt gives you, I think, sufficient indication as to the importance the President lays on the matter here.

I gave the substance of the foregoing to Larry Duggan over the telephone a few moments ago, who said he would immediately go into the matter and try to have some word for me today. I have, however, wished to give you this more full information in view of the fact that it is likely that it may be difficult to arrange this matter, but I feel that in some way it must be arranged and without delay. The important thing is that the Mexican Government has clearly stated that it considers no precedent of any kind is involved but that they are acting under dire necessity.

With all good wishes,

Cordially and faithfully yours,

G. S. MESSERSMITH

711.1216M/2341

The Ambassador in Mexico (Messersmith) to the Adviser on Political Relations (Duggan)

MÉXICO, D. F., May 14, 1943.

[Received May 17.]

DEAR LARRY: I have to refer to my letter of May 13 ⁴⁷ with which I sent you a copy of my letter of the same date to Mr. Welles ⁴⁸ with regard to the water problem in the Mexicali district.

I also have to refer to a conversation which I had with you last evening on the telephone and to a previous conversation on this matter which I had with Joe McGurk this morning when he called me on another matter.

I called on Dr. Padilla and Dr. Torres Bodet early this morning and conveyed to them the substance of our conversation over the telephone last evening and that contained in your telegram of May 14 ⁴⁷ on this matter, just received.

I said that the information which you had in the Department was that some 2,700 second feet were passing Rockwood Heading ⁴⁹ to Mexico these days. . . .

I told them that De la Colina was to see you today when you could give him a more full picture of the situation than I could and he would undoubtedly advise them.

⁴⁷ Not printed.

⁴⁸ *Supra*.

⁴⁹ Rockwood Gate on the Colorado River at Andrade. This quantity of water was larger than at any time for some weeks.

I told them that Lawson too had instructions to get in touch with MacGregor and Torres Bodet said that he would immediately get in touch with MacGregor so that he would be sure to see Lawson.

I gather that one of the problems is that they have put more ground under cultivation in the Mexicali area and that the 2,700 second feet may not be enough and that they made this emergency arrangement with the Imperial Valley people for this additional water—not liking it any more than we do. Torres Bodet said that a principal pre-occupation of the Mexican Government and of the President was that this program of more intensive cultivation in the Mexicali area which the Government had fostered should be impeded through lack of water and that there should not be unfavorable publicity at this time which could affect our relationships developing in so happy a way. In other words I think that an additional amount other than the 2,700 second feet is involved.

I am sure that the conversations which you will have with De la Colina will help to clarify the situation so far as what they are thinking here is concerned. I am sure also that the conversations between MacGregor and Lawson will give you more data on which to work.

In some way or other I think we must see that they get the water they need because I am sure that the matter is viewed here seriously or the President would not have taken up the matter here in the way that he did.

I am not saying anything more for the present here until I hear from you. Appreciating very much the consideration which you are giving the matter when I know there is so much on your hands.

Believe me [etc.]

G. S. MESSERSMITH.

711.1216M/2337

The Under Secretary of State (Welles) to the Ambassador in Mexico (Messersmith)

WASHINGTON, May 17, 1943.

DEAR GEORGE: I appreciate your personal letter to me of May 13 with regard to the conversation you had with Padilla concerning the rumored shortage of water in the Mexicali District.

I understand that as a result of your telephone call to Duggan the Bureau of Reclamation engineer at Yuma, Arizona, made an inspection and reported that more water was passing through the Rockwood Heading and into the Alamo Canal ⁵¹ than could be used beneficially

⁵¹ The Canal ran from Rockwood Heading to the upper boundary, then down through the Mexicali Valley and back to the boundary some 80 miles west of Yuma. Mexico was entitled to 50% of the flow through the Canal.

in the Mexicali Valley. I am advised that this information was relayed by telephone to you and, at your request, was also passed on to de la Colina here. Since that time you have received the Department's telegram of May 14 ⁵² giving additional information from Mr. Lawson.

It is our determination, shared by the Department of the Interior, that the water shall be delivered to Mexico without handling charges and that the only way this can be done is for the United States Government to own, control, and manage the facilities.

If this type of scare tactic is tried again I suggest that you delicately recommend to the Mexican authorities that first of all they check with their own people along the border to ascertain the true facts. Had they done so in the present case they would have found that there was no shortage of water. Mr. Lawson assures us that Señor MacGregor, the Mexican Commissioner, is fully apprized of the exact facts, as must be the Mexican irrigation representative in the Mexicali Valley.

Yours very sincerely,

SUMNER WELLES

711.1216M/2342

Memorandum by Mr. Charles A. Timm of the Division of the American Republics to the Adviser on Political Relations (Duggan)

[WASHINGTON,] May 22, 1943.

MR. DUGGAN: The attached letter from Mr. Lawson ⁵³ tends to justify our firm position here on the Mexicali situation.

There is some reason to believe, and I suspect Mr. Lawson has this in view, that certain Mexicans may be trying to induce us to set the precedent of *assuring* the delivery of a greater amount of water than we now contemplate allocating by treaty. It would seem that both the Imperial District and the Mexicans need careful watching.

It may be that a letter asking these specific questions should be sent to Mr. Lawson:

1. Are the Mexicali lands actually getting enough water?
2. Has the Mexican Commissioner specifically advised the Foreign Office that no real shortage exists?
3. Is there any real danger of a shortage during this growing season?
4. Should it become necessary or possible to take over the facilities below Pilot Knob,⁵⁴ would the American Section be in a position immediately to operate them?

⁵² No. 773, not printed.

⁵³ Letter dated May 21 from Mr. Lawson to the Secretary of State, not printed.

⁵⁴ A spillway or diversion dam in the Colorado River above Yuma.

711.1216M/2366

The American Commissioner, International Boundary Commission (Lawson), to Mr. Charles A. Timm of the Division of the American Republics

[Extracts]

EL PASO, June 1, 1943.

[Received June 3.]

DEAR DR. TIMM: I have received your letter of May 25, 1943,⁵⁷ relating to conditions on the Lower Colorado River in the matter of diversions of water for use on lands in the Mexicali Valley. . . .

Referring to the numbered questions in your letter, the following answers are submitted:

1. According to our latest report (May 29), actual diversions at Rockwood Heading were then adequate to supply current demands as follows:

<i>Diversion</i>	<i>Demands</i>
2,162 s. f. ⁵⁸ (a.m.)	2,130 s. f.

2. Although I have kept Commissioner Fernández MacGregor advised regarding current diversions at Rockwood Heading, as reported by our field engineer at Calexico, I do not know what he may have reported to the Foreign Office.

3. As explained in the fourth paragraph of my letter to the Secretary of State, dated May 25, 1943,⁵⁷ a copy of which was sent directly to you, it seems probable that it will not be possible to divert sufficient water at the Rockwood Heading intake to meet anticipated peak demands of between 3,500 and 4,000 s. f. during July and August, unless a temporary diversion dam is placed in the river at that point. The water which would be thus diverted would, of course, consist entirely of surplus flow in so far as concerns required present uses in the United States.

Sincerely yours,

LAWRENCE M. LAWSON

711.1216M/2412

Memorandum by Mr. Charles A. Timm of the Division of the American Republics to the Adviser on Political Relations (Duggan)

[WASHINGTON,] July 16, 1943.

LETTER OF JULY 14, 1943 FROM COMMISSIONER LAWSON ⁵⁷

MR. DUGGAN: This letter indicates clearly that Commissioner Lawson has opened the discussions with Fernández MacGregor in a broad

⁵⁷ Not printed.⁵⁸ Second-feet.

but cautious manner, and it suggests that certain problems may soon have to be faced:

(1) If the Mexican figure of 1,700,000 acre feet is an irreducible minimum, the prospects of an agreement may be poor. On the other hand, if it is a bargaining figure, it may not be too difficult to bridge the gap between that figure and Mr. Lawson's tentative suggestion of 1,250,000; that is, the average of the two approximates the ultimate minimum of the Department's Santa Fe formula.

(2) Commissioner Lawson has, of course, not yet exhausted the possibilities of "sweetening up" the offers of water. If the Mexican figure can not be reduced otherwise, it may be advisable to give still more attractive financial inducements rather than go back to the Committee and ask for a new and higher limit on the quantity of water. There is, for example, the possibility of assistance in the development of Mexico's entire irrigation program, thus not limiting the assistance to Baja California. It should be borne in mind that the Basin States would, in all probability, rather see the United States pay a large amount of money than allot to Mexico a quantity of water that would almost certainly have a markedly injurious effect upon the future development of the Basin. Senator Downey⁵⁹ on July 9 suggested something along the same line.⁶⁰

Mr. Lawson's report regarding diversion into the Alamo Canal is quite encouraging in view of the fears heretofore expressed that it might be impossible to get enough water through Rockwood Heading to supply the peak Mexican demand. Recent conversations with officials of the Bureau of Reclamation indicate that unless power production at Boulder is deliberately curtailed, in view of the water supply situation, the releases for power production will hardly fall below 16,000 c.f.s.,⁶¹ thus insuring a relatively high river flow this summer below Yuma. Apparently, therefore, the Department need not fear that Mexican peak demands can not, for the most part, be met during this growing season. Power releases are now running from 19,000 to 20,000 c.f.s.

711.1216M/2411

The Adviser on Political Relations (Duggan) to the Counselor of Embassy in Mexico (Bursley)

WASHINGTON, July 20, 1943.

DEAR HERB: As you suggested in your letter of July 12,⁶² there is some reason to hope that progress is being made in the Colorado River

⁵⁹ Sheridan Downey, Senator from California.

⁶⁰ Memorandum of July 9, not printed.

⁶¹ Cubic feet per second.

• Not printed.

negotiations. However, as will be noted below, not all the news is good.

The Mexican memorandum of July 1⁶³ did not indicate any reduction in the Mexican demand for water. However, Fernández MacGregor has apparently been authorized to discuss figures below 2,000,000 acre feet. As I understand the present situation, the two Governments are not directly to undertake to reach an agreement concerning the amount of water but have authorized the two Commissioners to make recommendations, the expectation being that if they can agree on some amount, the concurrence of the two Governments will be highly probable.

The latest reports from El Paso indicate that there is still a wide gap between the positions of the two Commissioners. If we could feel justified in giving as much as 1,700,000 acre feet, it is probable that rapid progress could be made. However, it is difficult to see how, as matters stand, we can go above the Santa Fe formula, which envisages an ultimate guarantee of approximately 1,500,000 acre feet to Mexico per year. The Basin States went a long way when they approved a formula that virtually doubled the Committee's formula of June 1942.

It is to be hoped that our Mexican friends will not conclude that Mexico has more to gain through arbitration than through negotiations. In some respects arbitration may offer some alluring prospects to Mexico, but a realistic appraisal of the situation should make them beware of that method.

The best news today is that diversions through Rockwood Heading have reached approximately 3,500 c.f.s. This is due partly to continued high river flow but more to improvement in operations at the Heading. This provides its own commentary on the late April-early May flurry about diversions.

We shall keep you informed. As you suggest, and especially in view of the broad discretion that each Government has given to its Boundary Commissioner, it would appear inadvisable to encourage discussions in Mexico City or, for that matter, with the Mexican Embassy here.

Sincerely yours,

LAURENCE DUGGAN

711.1216M/2421

Memorandum by the Legal Adviser (Hackworth) to Mr. Charles A. Timm of the Division of the American Republics

[WASHINGTON,] July 26, 1943.

DR. TIMM: The Inter-American Arbitration Treaty of 1929⁶⁴ provides for the arbitration of differences of an international character

⁶³ Not printed.

⁶⁴ *Foreign Relations*, 1929, vol. I, p. 659.

which have arisen or may arise between the parties to the treaty by virtue of a "claim of right made by one against the other under treaty or otherwise" which it has not been possible to adjust by diplomacy and which are juridical in their nature by reason of being susceptible of decision by the application of the principles of law.

I agree with Mr. Lawson that there is at present no question to arbitrate.

I say this for the reason that we have offered to negotiate a treaty allocating to Mexico a fair share of water, even more than Mexico was using or would have been able to use with the river in a state of nature, and there is not now any reason to suppose that the matter cannot be adjusted by diplomacy if Mexico takes a reasonable attitude. Should these negotiations prove abortive because Mexico claims more water than we are willing to make available, she might then say that there exist differences of an international character by virtue of a claim of right which it has not been possible to adjust by diplomacy; that those differences are juridical in their nature since they are susceptible of decision by the application of principles of law, and demand arbitration. While the principles of law in this particular field are somewhat vague and nebulous, we probably would not feel disposed to decline arbitration. I should not in that event greatly fear arbitration, although we can never be certain how an arbitral tribunal may react to a given state of facts, for the following reasons:

(1) It is my understanding that Mexico is now receiving more usable water than she received prior to the construction of Boulder Dam;

(2) It is also my understanding that had the river been left in a state of nature she probably could not have utilized a greater amount of water because of the nature of her terrain, the uncontrolled flood conditions, etc.;

(3) She is not entitled to claim the benefits of our ingenuity and expense in the harnessing of the waters of the river, but rather would as a matter of law be entitled only to such additional benefits, if any, as would have been available to her had we not constructed the Dam;

(4) If we should arbitrate we would probably argue (*a*) that we have a right to use all waters having their source in the United States, and (*b*) that in any event Mexico cannot claim the benefits of our action in controlling in our own interest flood waters which were damaging both to Mexico and the United States.

I should suppose that Mexico realizes the weakness of her position and is merely referring to the possibility of arbitration with a view to driving a better bargain.

GREEN H. HACKWORTH

711.1216M/2450

*Memorandum by the Assistant Chief of the Division of the American Republics (McGurk)*⁶⁵

[WASHINGTON,] August 16, 1943.

The attached memoranda⁶⁶ regarding the oil seeds projects illustrate some of the difficult aspects of the United States-Mexican water treaty negotiations. Attention is directed to the following points:

1. It is noted that although the Department has been engaged for several years in building up a situation that, it was hoped, eventually would end in a favorable water treaty, other agencies of the Government have carried on negotiations with the Mexican Government with results that might unfortunately have a very adverse effect upon the negotiation of this proposed treaty. The zeal of these other agencies in furthering production of strategic materials in Mexico is, of course, commendable; but it is illustrative of the grave difficulty faced by the Department in the conduct of foreign relations when it apparently does not have an opportunity to integrate and coordinate all the facets of the foreign relations of this Government. In the present instance long and complicated negotiations for the development of certain agricultural projects in Mexico had apparently been carried on in Mexico without any regard to and knowledge of other and possibly conflicting negotiations being carried on by the Department. Unfortunately the Department might be held responsible for certain consequences that it was not in a position to prevent. For example, it is not contemplated that the United States will be able to allocate to Mexico from the Colorado River any more water than is now being used by Mexico. However, if other agencies of our Government help Mexico develop projects in the delta requiring the use of approximately 800,000 additional acre feet of Colorado River water,⁶⁷ how will it be possible in the future to say to Mexico that, our need of these products having ceased, we shall cut off this additional quantity of water? On the Rio Grande the problem is perhaps worse. From this river we hope to secure from Mexico an allocation by treaty of approximately 1,000,000 acre feet per year. The possible effects of these Rio Grande oil seeds projects upon these hopes for a fair share of Rio Grande water should be studied. In all candor it must be asked whether all these projects contemplated by certain agencies of this Government will, in the long run, help or hinder the development of good relations along the border.

2. In all of these matters it is, of course, important to prevent the

⁶⁵ Addressed to the Chief of the Division of the American Republics (Bonsal) and to the Adviser on Political Relations (Duggan).

⁶⁶ Not printed.

⁶⁷ A marginal note by C. A. Timm reads: "Apparently abandoned but no proof of this exists in RA [Division of the American Republics]".

development of an active spirit of contention and dissension along the border. It may be thought necessary to implement the program of economic assistance to Mexico, but this program should assuredly be closely coordinated and integrated by the Department and not dispersed among various agencies. Furthermore such a program should in some manner be tied in with the important water negotiations. In fact, it should afford a good opportunity to secure a reduction of Mexican demands on the Colorado and an increase in Mexico's offer of water from the Rio Grande. Above all it should be recognized that the water problem is a life and death matter in our Southwest, and its solution will have vital effects upon the long future of both the United States and Mexican portions of the basins of these boundary streams. It may even be stated that in the long run good general relations with Mexico can not be maintained without a satisfactory solution of the boundary water problems.

3. The factual situation regarding the San Juan and the Retamal developments should be pointed out. The San Juan enters the Rio Grande opposite Rio Grande City, Texas. With an average annual contribution of nearly 1,000,000 acre feet, it is the most important Mexican tributary with the possible exception of the Conchos. Azúcar Dam, providing a storage capacity of nearly 2,000,000 acre feet will, therefore, be able to hold two years run-off. Once the reservoir is filled, it can be said that the effects of the dam will be favorable for Texas as long as the Mexicans do not use too much of the water supply, for the dam would tend to provide a more reliable flow of the Lower Rio Grande in the dry season. Compared with the San Juan Dam the Retamal heading is, for the time being, more dangerous in that it can divert the entire flow of the river at a point opposite Weslaco, being thus above the points of diversion for some of the largest irrigation districts on the Texas side. Both these Mexican developments underline the importance of Federal Project no. 5.

4. Finally, there appears to be ample reason to believe that the Department will be held very largely responsible by the American people for any lack of clarity, coherence, unity, and balance in our foreign policies, not to mention any lack of success in their prosecution. It stands to reason, then, that the authority possessed by the Department should be commensurate with its responsibility.

J. F. MCGURK

711.1216M/2453a : Telegram

The Secretary of State to the Ambassador in Mexico (Messersmith)

WASHINGTON, August 26, 1943—midnight.

1411. For your information and such use as you may deem appropriate Lawson, acting under authorization, has suggested to Fernández

MacGregor that latter inform Foreign Office that Department stands prepared to send to El Paso representatives fully authorized to discuss and reach preliminary agreement to form basis on which draft treaty could be worked out on all phases of water problem. This is on the understanding that, as stated in letter December 22, 1942, Bursley to Duggan,⁶⁸ Foreign Office prefers this procedure.

Mexican Commissioner has undertaken to telephone Foreign Office regarding this matter.

Intimate relationship of technical matters to broader questions makes separate discussion inadvisable and dependence upon technical data and advice fully justifies El Paso-Juarez as seat of preliminary negotiations.

Absence of any agreement, temporary or otherwise, governing diversions of Colorado River water to Mexico makes it highly important from point of view of both countries to reach an early understanding.

Present idea is that Duggan, McGurk, and Timm, together with Lawson and his advisers, would represent Department, provided Foreign Office will send to El Paso-Juarez representatives similarly authorized.

Mexican Embassy has been informed in the sense of the foregoing but, as stated, proposal is being made through Mexican Commissioner, who, it is understood, discussed with Padilla a few days ago a similar procedure.

If this procedure is acceptable to Foreign Office, the discussions in El Paso-Juarez should begin as soon as possible.

HULL

711.1216M/2460

Memorandum by the Adviser on Political Relations (Duggan) to the Secretary of State

[WASHINGTON,] September 15, 1943.

DISCUSSIONS AT EL PASO REGARDING THE DIVISION OF INTERNATIONAL
STREAM WATERS

These discussions started Monday, September 6, with representatives attending from the two sections of the Boundary Commission, the Mexican Foreign Office and the Department.

The discussions opened with respect to the division of the Colorado River waters. The offer previously advanced by Commissioner Law-

⁶⁸ Not printed.

son of 1,250,000 acre feet was reiterated. The Mexicans made a vague counterproposal which seemed to be based upon an average of 1,700,000 acre feet. On Friday, September 10, we made a new proposal to the Mexicans which was well within the maximum limits of the formula approved at the Sante Fe Conference. Although at the time I left on Tuesday afternoon no reply had been given by the Mexicans to this proposal it is known that the Mexican representatives recommended to the Foreign Office that they accept the formula with certain modifications. The extent of these suggested modifications is not known. The Mexican representatives indicated that the pressure for 1,700,000 acre feet came from the Department of Agriculture and that that Department therefore might be expected to be least easy to convince of the desirability of a settlement based upon our formula presented on Friday, September 10.

Since last Friday discussions have revolved around division of the waters of the Rio Grande. In the first conversations, each side presented its well-known position. Technical studies made by engineers of the two groups brought out the existence of sufficient water to meet the reasonable demands of both countries. The difficulty was to find a formula satisfactory to both countries that would make available to each country water necessary to cover existing uses and for a reasonable expansion. Our position was that an agreement with Mexico, in order to be attractive to us, would have to provide at least as much water as that which could be available to the United States with the development of Project No. 5 providing for taking flood waters from the Rio Grande through a gravity canal for storage and distribution in the United States. At the time I left each side was endeavoring to devise a formula that would satisfy both the principles for which each country stood and the practical necessities of the case.

In general, I am most encouraged by the tenor of the conversations. Although they were slow getting under way, they have now reached a point where both sides are using their best efforts to work out formulas and plans that will present acceptable solutions for both rivers.

In the event that agreement in principle is reached, which should be known within another week or two, approximately six weeks to two months would be required to make certain preliminary engineering studies essential to a well founded treaty and for the drafting of the treaty itself. In other words, provided an agreement can be arrived at by October 1, the treaty should be ready for signature by December 1.

LAURENCE DUGGAN

711.1216M/2464

Mr. Charles A. Timm of the Division of the American Republics to the American Commissioner, International Boundary Commission (Lawson)

WASHINGTON, October 26, 1943.

MY DEAR MR. LAWSON: In your letter of October 18, 1943 to Mr. Duggan ⁶⁹ you summarized and briefly discussed the present differences between United States and Mexican representatives on the subject of the proposed water treaty. These points have already been the subject of long distance telephone conversations with you; hence this reply to your letter will serve primarily as a confirmation of views already expressed and as a statement of conclusions reached in conferences here. As you already know, the Department concurs with your position in regard to these several points of difference.

(1). *Yuma Drain and Surplus Waters*. It is not yet seen how we can recede from our position that these waters should be charged to Mexico's allocation. The only alternative would seem to be for the United States to dispose of them in some other manner so as to insure credit for them. It may be, however, that certain concessions might be made in regard to the technical or financial aspects presently governing their disposition; if true, the Department is in need of additional information on this point. Insofar as the position of the Bureau of Reclamation is concerned, I suggested in my conversation of October 19 with Commissioner Bashore that the larger interests involved might make it necessary for the Department to have a free hand in the disposition of the waters in question. It is assumed that this matter is one of the subjects of conversation this week between Mr. Ainsworth and the Bureau officials in Denver.

(2). *Allocation of Costs of International Structures on the Rio Grande*. It is true that in one of our drafts in El Paso there was presented the idea of a fifty-fifty division of costs and revenues of hydro-electric plants. On the other hand, we attempted from the first to establish the principle that the costs of storage works should bear some relationship to assigned storage capacities. There appears to be some opportunity for compromise on this matter. Nevertheless, it seems that the Mexicans are trying to assure themselves of enough power revenues to pay for their proportion of the costs, with the possibility, even, of future profits. On the other hand, as regards the cost of the major storage reservoirs, the basis of benefits received or to be received, as urged by the Mexicans, would seem to insure that the United States would bear a disproportionate part of the cost.

⁶⁹ Not printed.

At the same time, as I have already stated, it is believed that a fair compromise on the matter of costs should be possible.

(3). *Commission Control of Diversion Works on the Lower Rio Grande.* On this point there does not seem to be much opportunity for a compromise. It is not believed that our people would find tolerable any degree of Mexican control over such diversions or diversion works, nor would such control seem to serve any useful purpose so long as diversions were within the allocation of water as provided in the treaty.

(4). *Use of the All-American Canal.* It is assumed that this is one of the major points of discussion with the representatives of the Bureau of Reclamation; hence, there is little that can or need be said at this time. If, as you have suggested, the Bureau of Reclamation tends to favor the location of the Mexican diversion dam in the international section of the river, the suggested figure of 1,000 second feet should suffice to take care of all the Mexican lands lying at too high an elevation to be served from the Mexican dam.

(5). *Surplus Waters of the Colorado.* This point, apparently introduced at the very last by the Mexicans, has, it may be, some dangerous aspects. It seems to be an additional indication that the Mexicans are making every effort to leave certain loopholes in the treaty whereby they will be able in effect to get more than the stated amounts of 1,500,000 and 1,700,000 acre feet. As their proposition appears to us, assuming that the Mexicans develop considerable non-summer uses for water, they could divert without charge large quantities of surplus waters in the fall, winter and spring and then demand during the summer the full amount of A water without exceeding, as a total charge, the technical allocation under the treaty. As you suggest, this proposal would seem to warrant very careful study. If it appears sufficiently dangerous, it may be thought advisable to take a firm position against it in its present form, even at the cost of modifying certain comparable phraseology in the provisions regarding the Rio Grande.

These points of difference do not appear to present insuperable obstacles to a final solution. At the same time it is not believed that the United States can afford to concede all of them, or all of any one of them.

It is our hope that the conversations in Denver will clear the decks as far as the interests of the Bureau of Reclamation are concerned. The way should then be open for the resumption of conversations with the Mexicans in El Paso-Juarez early in November. It has never been our expectation here that any of the differences with the Mexicans could be left to settlement in Mexico City. Furthermore, as you stated, "the exchange of drafts and the adoption of principles are based

on complete approval and not an acceptance of particular paragraphs or principles, since there is a correlation of ideas that presupposes complete and not partial concurrence."

As to whether anyone from the Department will participate in the next meetings will be the subject of immediate consideration. It is understood, however, that the Mexicans desire such participation; consequently, it is assumed that one or more will go from here.

This letter has been read by Mr. McGurk and Mr. Duggan.

With best wishes, I am

Sincerely yours,

CHARLES A. TIMM

711.1216M/2479a : Telegram

*The Acting Secretary of State to the Ambassador in Mexico
(Messersmith)*

WASHINGTON, October 28, 1943.

1834. We have notified the office of the United States Boundary Commissioner at El Paso to inform the Mexican Section of the Boundary Commission that we are ready to proceed to El Paso-Juárez to resume the conversations on the question of the water treaty on or about November 8. McGurk and Timm will leave here about November 3 to be there at that time. The Mexican Embassy has been informally notified to this effect and you will please also informally notify the Foreign Office.

STETTINIUS

711.1216M/2495

*Mr. Charles A. Timm of the Division of the American Republics to
the Adviser on Political Relations (Duggan)*

EL PASO, November 16, 1943.

DEAR LARRY: I refer to your letter to me of November 10, my letter to you of November 13,⁷⁰ and your telephone conversation yesterday with Joe.⁷¹

In regard to Senators Connally and Hayden,⁷² it would appear that, in the light of developments during the last day or two, should you have occasion to discuss the matter further with them, it might be well to suggest that the success of the negotiations is by no means assured, by reason of the fact that the Department's representatives are determined not to accept terms that make unreasonable demands upon the United States or that go beyond the Santa Fe proposals.

⁷⁰ Neither found in Department files.

⁷¹ Joseph F. McGurk.

⁷² Tom Connally, Senator from Texas, and Carl Hayden, Senator from Arizona.

My letter to you of November 13, while not altogether optimistic in tone, was nevertheless a bit too hopeful. The reasons for this were covered by yesterday's telephone conversation, and on that general point I should like to make a few additional comments.

The major difficulty centers, as we said yesterday, around the effort of the Mexicans to find loopholes by which they could demand virtually all of the 1,500,000 acre-feet at points above the lower boundary, thus insuring, first, that most of the allocation would be practically fresh water, and second, that in time they could be virtually assured of having the use of several hundred thousand acre-feet of usable water without charge against their allocation. This last named quantity would be available for their Sonora lands, which, we understand, may in time reach 100,000 acres in extent.

On our part, we went on the assumption that the basic point of an over-all quantity of 1,500,000 acre-feet had been accepted by the Mexicans and that this total would include water made available for them at all points. We introduced the question of the point of diversion on the lower boundary and also diversions through the All-American only in order to evidence our desire to be of such practical assistance to the Mexicans as was feasible. . . .

During a conference yesterday afternoon, lasting from four until six-thirty, the Mexicans (especially Orive Alba), gave further expression to their views; but they also made it clear that they were loath to break off negotiations. They proposed that we present a draft treaty and that they take this draft to Mexico City for further discussion and instructions, after which they would promptly return to El Paso. In this same conference we adopted a somewhat firmer tone in regard to our basic proposition. Also, in a few well chosen words, Joe made it abundantly clear to them that the Commissioner's proposals represented the views of the Department. This they finally and explicitly recognized. Today we are drawing up a clear-cut statement of our position on the basic points at issue. This will be discussed with the Mexicans this afternoon at four.

Without elaborating too much, it may be that the following conclusions are warranted:

1. Orive Alba, or perhaps Marte Gomez, appears to be the dominant figure among the Mexicans, with the Foreign Office representatives having a less and less important role.

2. The Mexicans now seem to recognize that it may have been a mistake for them to attempt to bring the Ambassador into the picture. Incidentally, Joe and I do not believe that the Ambassador made the categorical statement attributed to him, that is, to the effect that Mexico would not be charged with more than 60,000 acre-feet of Yuma drain and waste water.

3. The Mexicans now seem to recognize that the negotiations must proceed here, even though some of them may have to make another trip to Mexico City.

4. There is, I believe, no reason for us to go beyond the Santa Fe proposals on any important point, or to recede in any degree from the tentative agreements regarding the Rio Grande, even if the conferences threaten, by reason of our firmness, to break up for a while with the Department having, as a result, to report failure to the Committee of Fourteen and Sixteen. I believe that the result would strengthen the Department, both as against Mexico and as regards the Committee. Although it is by no means certain that the discussions will not terminate for the present, it seems clear to me that the Mexicans are very desirous of getting a treaty and that, all things considered, they need a treaty more than we do.

5. The threat of arbitration should not be wholly disregarded; on the other hand, it need not be taken too seriously. It is not believed that any competent, fair tribunal would give to Mexico an award more favorable than or even as favorable as our proposals. Much might depend upon the composition of the tribunal.

Sincerely yours,

CHARLES A. TIMM

711.1216M/2518

Memorandum by the Adviser on Political Relations (Duggan) to the Under Secretary of State (Stettinius) ⁷³

[WASHINGTON,] December 11, 1943.

MR. STETTINIUS: On November 24, 1943, representatives of the Department and of the Foreign Office agreed, as the result of negotiations in El Paso-Juarez lasting several weeks, upon the terms of a draft treaty on apportionment, control, and use of the waters of the Colorado River and of the Rio Grande below Fort Quitman, Texas.

Copies of an analytical outline and a summary of the draft treaty,⁷⁴ the originals of which have been sent to the Secretary, are attached hereto. More briefly stated, the draft agreement, in respect of the Rio Grande, allocates to the United States somewhat more than one-half of the waters reaching the main stream of this river each year. The two Governments undertake to build three major storage dams and the necessary auxiliary works on this river.

As for the Colorado River, the United States guarantees to Mexico 1,500,000 acre-feet each year, delivered according to annual schedules formulated by Mexico under certain limitations that adequately protect United States uses on this river. Both Governments undertake

⁷³ The resignation of Sumner Welles as Under Secretary of State was announced on September 25, 1943. He was succeeded by Edward R. Stettinius, Jr.

⁷⁴ Neither printed; the draft agreed upon was substantially the same as the treaty signed on February 3, 1944, Department of State Treaty Series No. 994; 59 Stat. (pt. 2) 1219.

to build the dams and other works necessary to carry out the terms regarding this river.

Generally speaking, the administration of the proposed treaty, including planning, construction, operation, and maintenance of essential works, is entrusted to the International Boundary Commission, organized under the Convention of March 1, 1889.⁷⁵

If the Department approves the terms as tentatively agreed upon, the draft will be prepared in correct treaty style for formal signature. The Secretary and Mr. Berle⁷⁶ have been informed regarding the present status of the negotiations; and Boundary Commissioner Lawson, Le, TD, RA⁷⁷ and I are studying the preliminary draft.

LAURENCE DUGGAN

711.1216M/2515a

Mr. Charles A. Timm of the Division of the American Republics to the American Commissioner, International Boundary Commission (Lawson)

WASHINGTON, December 21, 1943.

MY DEAR MR. LAWSON: On December 18, as I recall, I sent you by regular mail and without a covering letter a copy of the memorandum of conversation of December 10, 1943,⁷⁸ between Mr. McGurk and Mr. Torres Bodet in regard to the desire of Mexico to bring about a "regularization" of the "illegal" Mexican diversions in the Juárez Valley. Under date of December 20, 1943, Mr. Duggan sent Ambassador Messersmith a letter⁷⁸ approving the position that the Ambassador and Mr. McGurk had taken to the effect that the Juárez water problem cannot be discussed, either by exchange of notes or otherwise, until the water treaty has been ratified, but that thereafter, this problem might be explored by the two Boundary Commissioners.

In my own conversations regarding this matter, I have taken the position that the Mexicans should be given no reason to hope for a solution, favorable to them, of the problem they have created by their own illegal operations. In developing this subject, I have pointed out two or three reasons why it will be difficult to agree with the Mexican position. In the first place, no more water above El Paso can be made available. In the second place, the time may come when the water users of the El Paso Valley may consider it feasible and

⁷⁵ William M. Malloy (ed.), *Treaties, Conventions, etc., Between the United States of America and Other Powers, 1776-1909* (Washington, Government Printing Office, 1910), vol. I, p. 1167.

⁷⁶ Adolf A. Berle, Jr., Assistant Secretary of State.

⁷⁷ Office of the Legal Adviser, Treaty Division, and Division of the American Republics, respectively.

⁷⁸ Not printed.

economically justifiable to construct such works as will take from the river virtually all the quantity of water now being illegally diverted by the Mexicans. In the third place, even if this water, legally the property of the United States, were not used in the El Paso Valley, it would, if left in the river, have the effect of relieving certain unfavorable conditions farther down the river, especially in the upper part of the Presidio Valley. In the fourth place, there is, of course, a very important political aspect of the matter, since any attempt to reopen the Treaty of 1906 ⁷⁹ would very likely raise a storm of protests in the El Paso Valley and in the valley above El Paso.

I have summarized these points in the hope of getting your comments on them. I should like also to know whether you believe that, in an effort to settle the matter, we could safely go so far as to offer terms by which the Mexican water users would be allowed to divert from this same reach if [of] the river roughly the amount of the estimated return flow and drainage from their treaty allocation of 60,000 acre-feet. Would this give them a total, including the 60,000 acre-feet, of 80,000–90,000 acre-feet? I am not advocating this concession, but I do want your opinion of it.

Sincerely yours,

CHARLES A. TIMM

711.1216M/2530

Memorandum of Conversation, by the Secretary of State

[WASHINGTON,] December 23, 1943.

The Mexican Ambassador called at his request. He had just returned from Mexico and reported that everything was coming along very well in his country.

I brought up the question of the tentative water power agreement in respect to the Colorado and the Rio Grande Rivers. I explained to him how emergency engagements, and for some days the flu, have thwarted our constant efforts to lay the whole water treaty proposal before Senator Connally and the other Senators from the interested states, and that therefore it would be impossible for us to sign the treaty during this year. The Ambassador said that he had heard of this situation and that since the Mexican Congress will adjourn at the end of December until next September, he suggested that we go along as rapidly as possible in securing the ratification of the treaty by the United States Senate, and then his President could call the Mexican Senate into special session for similar ratification. I said that we would do our best along these lines.

C[ORDELL] H[ULL]

⁷⁹ Convention providing for the equitable distribution of the waters of the Rio Grande for irrigation purposes, signed at Washington, May 21, 1906, *Foreign Relations*, 1906, pt. 2, p. 1128.

**AGREEMENT BETWEEN THE UNITED STATES AND MEXICO RESPECT-
ING A COOPERATIVE PROGRAM FOR WEATHER STATIONS IN
MEXICO**

[Effected by exchange of notes signed at Mexico City, May 18 and June 14, 1943. For exchange of notes and memorandum, see Department of State Treaties and Other International Acts Series No. 1806, or 61 Stat. (pt. 4) 4053.]

NICARAGUA

AGREEMENT BETWEEN THE UNITED STATES AND NICARAGUA CONTINUING IN FORCE THE AGREEMENT OF MAY 22, 1941, RESPECTING THE DETAIL OF A MILITARY OFFICER TO SERVE AS DIRECTOR OF THE MILITARY ACADEMY OF THE NATIONAL GUARD OF NICARAGUA

[For text of agreement, effective May 22, 1943, through exchange of notes signed at Washington October 22 and 25, 1943, see Department of State Executive Agreement Series No. 344, or 57 Stat. (pt. 2) 1109.]

EFFORTS OF THE UNITED STATES AND NICARAGUAN GOVERNMENTS TO CONTROL FINANCIAL TRANSACTIONS INVOLVING THE AXIS

740.00113 E.W. 1939/911

The Ambassador in Nicaragua (Stewart) to the Secretary of State

No. 1130

MANAGUA, June 7, 1943.

[Received June 15.]

SIR: I have the honor to refer to my despatches nos. 734 of February 13, 1943, 790 of February 26, 1943, and 829 of March 9, 1943 ¹ relative to Emergency Decrees of Nicaragua imposing supervision and control over the property of enemy nationals, and to report that the new legislation anticipated in those despatches has been prepared. The draft has been delivered to a member of the Embassy staff by the Minister of Hacienda, Dr. Ramon Sevilla Sacasa, and a copy of it in Spanish, together with an informal translation, is transmitted herewith.²

The proposed legislation has been incorporated in drafts of two ostensibly unconnected laws. The first relates exclusively to the future administration, taxation, expropriation, and sale of the property of enemy aliens and the investment of sale proceeds in defense bonds; the second authorizes the issuance of such bonds and prescribes their terms. In many respects the proposed legislation is modeled on that enacted by Costa Rica for similar purposes. It will require a more drastic occupation of and intervention in the business enterprises of enemy aliens in all instances, and is expected to result in decrees for the forced transfer and total liquidation of them in most. It will hence

¹ None printed.

² Not printed.

be seen that the Nicaraguan Government has elected to adopt the more effective of the two alternatives for control of business enterprises required by Resolution VII of the Inter-American Conference on Systems of Economic and Financial Control.³

As stated in the prior despatches, *supra*, Dr. Leopoldo Arguello Gil, attorney to the Minister of Hacienda, was charged with the preparation of the drafts early last March. After many consultations with a member of the Embassy staff he stated early in April that his work had been completed; that he would submit the draft to the Minister of Hacienda, who was not expected to change it on any material point, and would then send a copy to the Embassy for examination and criticism. Delivery of any copy to the Embassy was postponed from day to day, and no satisfactory explanation of the delay was offered. Rumors were current that no such law would be decreed; later, that President Somoza intended to present it to Congress with instructions for its defeat there. About the middle of April, when pressed for delivery, Dr. Arguello Gil stated that he was himself at a loss to understand what had happened to his draft; that he had requested the Minister to return it, and was delaying a planned vacation to Mexico on that account. He left for Mexico the latter part of April.

As the Embassy received no information about the draft or prospects of its enactment, I mentioned the matter to President Somoza on May 25. He assured me that he was confident that the law would pass, and promised to mention it to members of Congress the following day. A member of the Embassy staff called lately on the Minister of Hacienda and received from him a copy of the draft. The Embassy's views and criticism were invited. As it is expected that the bill will soon be presented to the Nicaraguan Congress, it is requested that the Department transmit its comments as expeditiously as possible.

Respectfully yours,

JAMES B. STEWART

740.00113 European War 1939/911

The Secretary of State to the Ambassador in Nicaragua (Stewart)

[Extracts]

No. 730

WASHINGTON, July 12, 1943.

The Secretary of State refers to the Embassy's despatch no. 1130 of June 7, 1943 which transmits a draft ⁴ of certain legislation proposed

³ For correspondence on the Inter-American Conference on Systems of Economic and Financial Control, held at Washington June 30-July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff. For text of Resolutions, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942).

⁴ Draft not printed.

to be introduced at the next session of the legislature which provides for the expropriation of the property of enemy nationals in Nicaragua.

As a general comment, the proposed drafts appear to have been the subject of thorough and careful study and seem well adapted to meet the end desired. The present draft, it is noted, relies much more upon administrative discretion than the previous draft legislation,⁵ and the effectiveness of the new law, if adopted, will therefore depend to a greater extent upon the energy with which the administrative bodies in charge of its being carried out attack the problem and prove themselves resistant to political and other pressures.

The granting of administrative discretion under the law will, however, afford opportunity to limit the expropriation to the property of Proclaimed List nationals who are, in the terms of the Department's present categories "inherently bad". The Department's views on the undesirability of extending expropriation to persons not on the Proclaimed List are well known to the Embassy and need not be discussed here. In addition, it is noted that the earlier economic warfare measures adopted by Nicaragua will remain in full force and effect except as the same may be repealed by implication by the new law. As a result, interventorship or other action of a lesser degree of severity than expropriation will be permissible in those cases where such action is deemed desirable.

While the proposed drafts deal, primarily with the expropriation of properties owned by Proclaimed List and enemy nationals, it is noted that other provisions of the proposed laws, if effectively administered, should permit the closing of other previous gaps in the Nicaraguan control laws. Specific comments on such provisions are made below. As the proposed legislation seems to follow closely, in its essential aspects, the legislation heretofore adopted by Costa Rica, a copy of the proposed legislation is being forwarded by the Department together with a copy of this instruction, to the Embassy at San José, with the request that it forward to the Embassy any suggestions it might have on the proposed legislation. Since the Embassy at Costa Rica has dealt with the practical application of the comparable Costa Rican law for a period of over six months, it should be in a unique position to make suggestions as to possible improvements in the proposed Nicaraguan legislation. Nevertheless, many of the comments made in this instruction are based upon problems which have arisen out of the Costa Rican law as reported to the Department by the Embassy at San José.

⁵ The draft transmitted by despatch No. 1130 refers to Decree No. 70 of December 16, 1941, No. 77 of February 17, 1942, and supplementary decrees of February 15 and March 1, 1943. Decrees Nos. 71 and 72 of December 16, 1941, also apply.

The Embassy may wish to consider the desirability of discussing such suggestions with the appropriate Nicaraguan authorities for such action as they may deem appropriate. The Department would appreciate being kept fully informed of the status of the adoption of the proposed legislation and any changes therein which are suggested or made from time to time. It should be noted that the Department has not attempted to pass upon the legal procedure set forth in the proposed legislation, as such matters depend primarily upon the provisions of the local civil code, with which the Department is not sufficiently familiar to pass judgment.

740.00113 European War 1939/933

The Secretary of State to the Ambassador in Nicaragua (Stewart)

No. 783

WASHINGTON, August 2, 1943.

SIR: The Department refers to your despatch no. 1216, June 25, 1943 ⁶ describing discussions being held by the Nicaraguan officials and members of the Embassy staff with regard to proposed Nicaraguan legislation providing, among other things, for the expropriation of properties owned by Proclaimed List nationals in Nicaragua.

The Department, of course, will be pleased to see the passage of legislation implementing more fully the Washington and Rio de Janeiro Resolutions ⁷ respecting economic warfare control measures. The Department nevertheless deems it appropriate to interject a note of caution which should be borne in mind in discussions between members of the Embassy staff and the Nicaraguan officials concerning the proposed legislation. As you know, the Department has always taken the position that economic warfare legislation, particularly when providing for expropriation or liquidation of Proclaimed List enterprises, should permit a high degree of selectivity in its operation. The Department appreciates the difficulties inherent, under the circumstances existing in Nicaragua, of granting broad administrative discretion in providing for expropriation or liquidation and that legislation, although mandatory in form, will be applied selectively in its actual administration. Notwithstanding these circumstances, however, it is felt that members of the Embassy staff should not suggest that the proposed legislation should be mandatory in terms so as to avoid taking a position which might be inconsistent with the selective approach which this Government has always deemed highly desirable.

⁶ Not printed.

⁷ For correspondence on the Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro January 15-28, 1942, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.

In view of the changes in the proposed Nicaraguan legislation as a result of the suggestions made by the Embassy⁸ pursuant to the request of the Nicaraguans, it is the Department's view that the proposed legislation, if adopted and effectively administered, will permit a fairly complete implementation of the Washington Resolutions by the Nicaraguan Government. If the proposed legislation is passed, therefore, it is suggested that it might be appropriate for the Embassy to express this Government's gratification at the cooperation which has been shown by the Nicaraguan Government in matters affecting the war effort of the United Nations. The Department wishes to emphasize, however, that the matter of enacting legislation is a matter for the sovereign determination of Nicaragua. The Embassy should therefore refrain from offering advice with regard to the details of proposed legislation except as it may be requested, and should not insist upon the enactment of specific legislative provisions which the Nicaraguan authorities are reluctant to adopt.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

740.00113 European War 1939/1062

The Ambassador in Nicaragua (Stewart) to the Secretary of State

No. 1466

MANAGUA, August 31, 1943.
[Received September 11.]

SIR: I have the honor to refer to the Department's instruction no. 783 of August 2, 1943 and to despatch no. 1295 of July 19, 1943,⁹ both relative to proposed Nicaraguan legislation for the expropriation of the property of enemy nationals, and to report that the bill in an amended form has passed both houses of the Nicaraguan Congress. It has not yet been signed by the President or published in *The Gazette* (Official Daily) and no official text as passed is available to date. A member of the Embassy staff was told a few days ago that the text was being edited by the Ministry of Hacienda to incorporate the various changes and amendments approved by the House and Senate, but as this text may not be available for some time, a report is sent without further delay.

⁸ Suggestions outlined in despatch No. 1216 of June 25, 1943 (not printed), were designed to (1) clarify the scope of business enterprises subject to expropriation, (2) speed administrative action on expropriation proceedings, (3) designate more clearly which native Nicaraguans would not be exempt from expropriation action, (4) provide for the purchase of expropriated property by a limited number of approved nationals of allied countries, (5) withhold from expropriation property more than half owned by non-effected nationals, and (6) impose stiffer penalties on those concealing goods subject to expropriation.

⁹ Latter not printed.

Note was promptly taken by the staff member of the Department's precautionary suggestion that expropriation legislation should permit a high degree of selectivity in its operation and that the Embassy should refrain from offering advice with regard to details except as it might be requested and should not insist upon the enactment of specific legislative provisions which the Nicaraguan authorities are reluctant to adopt. In this connection I wish to point out that the mandatory character of existing control decrees, which the Ministry of Hacienda carried into the original draft of the present bill, was not a suggestion of the Embassy but a preference of the Nicaraguan administration for reasons set forth in despatch no. 1295. As the nationality of many foreign-born residents and native Nicaraguans born of one or two foreign parents was unsettled and controversial, the committee on nationality created by Art. 47 of Decree no. 77 could fail to certify that an unobjectionable person was of enemy nationality and thereby exempt him from control without exposing itself to a charge of inconsistency with the determination of some other branch of the government.

Early in the summer, however, the *Defensa Nacional de Nicaragua* required all foreign residents to register, prescribing a penalty for failure to do so. As a result the nationality of each person in the country became a matter of official record. After the House committee to which the expropriation bill was referred had recommended in a proposed report that a Consulting Commission be authorized to make exemptions, Dr. Leopoldo Arguello Gil, the attorney to Hacienda, informed the staff member that the administration was now disposed to accept that recommendation since *Defensa Nacional* had already passed on all questions of nationality in the country and a failure to adopt its finding for control purposes would expose the government to a charge of inconsistency. The staff member agreed to its propriety, suggesting, however, that the Consulting Commission be empowered to grant exemptions only on the approval of *Defensa Nacional*. Dr. Arguello accepted the amendment as a means of spreading responsibility and relieving the Commission *pro tanto* of personal pressure in that its refusal to exempt could be imputed to *Defensa Nacional*. The bill as passed retains these provisions which will, it is hoped, meet with the Department's approval.

In reference to the Department's caution against offering unsolicited advice to Nicaraguan officials or insisting on details of proposed legislation, it may be said that the staff member has been careful not to do so in any instance. His problem, on the contrary, has often been to refrain from making solicited suggestions on matters in which the United States has no interest. Dr. Arguello frequently calls on him at the Embassy or requests him to come to the Ministry for consulta-

tions not only relating to the bill but also to obtain his views on administrative questions which the National Bank has referred to the Minister. All of his conferences with the Minister have been at the Minister's request. His relations with Dr. Arguello, moreover, are close personally as well as officially, and their exchange of ideas is in an atmosphere of informality.

On July 24, 1943 Dr. Arguello brought him a copy of the proposed House Committee Report on the expropriation bill before it had been submitted to Congress. This report had been given to the Minister of Hacienda for his reaction. It was left in the strictest confidence with the staff member for detailed study. A few days later Dr. Arguello called to review and discuss with him the proposed changes. Both agreed that the committee's revision of the first two articles emasculated the bill by restricting the properties subject to expropriation to those which could not be otherwise used in commerce; by injecting unnecessarily a hearing which could postpone expropriation indefinitely; and by permitting the exclusion of proclaimed Nicaraguans from any effective control. After they had agreed that these and a few other revisions were objectionable, the staff member called on the Minister by invitation and in Dr. Arguello's presence reviewed the criticisms. The Minister listened attentively and stated that he would discuss the report privately with the committee. He did so and the committee made revisions to conform in large measure to the suggestions. A translation of the report is submitted herewith.¹⁰ Portions of the original draft which were deleted on the Minister's recommendation are enclosed in parentheses; additions to the original draft are underscored. It will be noted that the committee did not recede from its recommendation that a hearing be given the affected party, but it did make some changes in procedure which should expedite expropriation sales. Dr. Arguello stated that the criticisms were received and discussed by the committee in a judicial manner; that the committee members were in favor of the bill as a whole as a necessary war measure, and this attitude was clearly manifest in their defense of it in the Chamber. A translation of the reported debate in the Chamber is attached.¹⁰

The bill was approved by the Chamber of Deputies on August 6, 1943; was thereafter referred to a Senate committee which made a few minor changes and reported favorably. The Senate approved the bill so revised on August 20. On August 30 Dr. Arguello called the staff member to say that the bill had been assembled by the Ministry of Hacienda to incorporate the changes made and had been sent to the Presidential Mansion, but no copy was yet available. For the Depart-

¹⁰ Not printed.

ment's information there is enclosed a copy of the text as passed by the House.¹¹ This copy was compiled by the Embassy staff member on the basis of the original draft and changes recommended by the committee which were reported to have been accepted by the Chamber. A copy of the final text will be transmitted as soon as it becomes available.

Sincerely yours,

JAMES B. STEWART

AGREEMENT BETWEEN THE UNITED STATES AND NICARAGUA CONTINUING IN FORCE AN AGREEMENT OF JANUARY 11, 1941, RESPECTING PLANTATION RUBBER INVESTIGATIONS

[For text of agreement effected by exchange of notes signed at Managua June 23 and 26, 1943, effective July 1, 1943, and for text of agreement of January 11, 1941, see Department of State Executive Agreement Series No. 357, or 57 Stat. (pt. 2) 1212.]

¹¹ Not printed.

PANAMA

AGREEMENT CONTINUING IN EFFECT THE AGREEMENT OF JULY 7, 1942, BETWEEN THE UNITED STATES AND PANAMA WHICH PROVIDED FOR THE DETAIL OF A MILITARY OFFICER BY THE UNITED STATES TO SERVE AS ADVISER TO THE PANAMANIAN MINISTER FOR FOREIGN AFFAIRS

[For text of Agreement, effected by exchange of notes signed at Washington July 6 and August 5, 1943, see Department of State Executive Agreement Series No. 336, or 57 Stat. (pt. 2) 1052.]

DISCUSSIONS OF THE PROPOSED JURISDICTION OF CANAL ZONE COURTS OVER DEFENSE AREAS IN PANAMA

711F.1914/704 : Telegram

The Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, May 21, 1943—7 p. m.

224. Your 264, May 20.¹ S. 1115 sponsored by the War Department and introduced on May 19, 1943 by Senator Reynolds² proposes to enable the courts of the Canal Zone to exercise jurisdiction within the defense areas in accordance with the terms of Article IV of the Defense Sites Agreement of May 18, 1942.³

The Department found no objection to the text of the proposed legislation when it was presented by the Bureau of the Budget last August, but introduction of the Bill was postponed by the War Department pending the approval of the Defense Sites Agreement by the Panamanian National Assembly.

Copies of the Bill were forwarded today and further explanations of the legislation will be sent in due course.

HULL

¹ Not printed.

² Senator Robert R. Reynolds of North Carolina.

³ Department of State Executive Agreement Series No. 359; 57 Stat. (pt. 2) 1232. Article IV acknowledged Panamanian sovereignty in the defense sites, but provided exclusive jurisdiction for the United States over United States civil and military personnel and their families therein. In cases involving the safety of the installations United States jurisdiction extended to all except Panamanians. For correspondence regarding the conclusion of this agreement, see *Foreign Relations*, 1942, vol. vi, pp. 577 ff.

711F.1914/706 : Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMÁ, May 26, 1943—1 p. m.

[Received 5:20 p. m.]

274. Your 224, May 21, 7 p. m. The Panamanian Cabinet discussed the Senate bill yesterday and this morning the Acting Minister for Foreign Affairs⁴ gave me a note⁵ setting out the Panamanian point of view, that it would be contrary to the text and spirit of article IV of the Defense Sites Agreement for the civil courts of the Canal Zone to exercise jurisdiction in relation to the defense sites; and that the retention of sovereignty of Panama over the sites as set out in article IV of the Agreement is incompatible with a consolidating policy of general character applicable to civilian communities in which the United States acts as territorial sovereign. The note suggests consultation between the two Governments regarding this matter. It seems to be the point of view of Panamanian Government that the jurisdiction granted the United States by article IV should be exercised only by military tribunals.

The Acting Minister assured me that the Panamanian Government had not the slightest intention of contesting or calling into question the jurisdiction specifically granted the United States in article IV. On the contrary, he said, that the Panamanian Government reaffirmed this grant of jurisdiction, and considered that it was simply a question of having such jurisdiction exercised in a manner compatible with the provisions of article IV.

Copy of the note is being forwarded by airmail. The Panamanian Government would greatly appreciate it if no action were taken by Congress on the bill until the United States Government has considered the note and opportunity been afforded for consultation between the two Governments.

WILSON

711F.1914/713

The Ambassador in Panama (Wilson) to the Secretary of State

No. 4192

PANAMÁ, June 5, 1943.

[Received June 8.]

SIR: I have the honor to refer to my despatch No. 4156 of May 26, 1943, which transmitted copy of Foreign Office note No. 5253 of May 25⁶ in reference to Senate Bill S. 1115 providing for the exercise by

⁴ Víctor F. Goytía.⁵ Note No. 5253, May 25, 1943, not printed.⁶ Neither printed.

the United States of jurisdiction within the defense sites in Panamanian territory.

I have discussed this matter with the Commanding General⁷ who informs me that investigation discloses that the Bill, as now presented to Congress, was initiated in the Panama Canal Department⁸ on June 18, 1942, "and was caused by certain legal conditions that had to be handled". In this connection General Brett has furnished me copies of two memoranda dated respectively May 26 and May 29, 1943, prepared by the Judge Advocate, Panama Canal Department.⁹ Copies of these memoranda are enclosed herewith.¹⁰

In thinking over this matter, certain observations occur to me which I am jotting down herewith for whatever they may be worth:

It seems to me that we are not perhaps primarily concerned with insisting upon our unilateral interpretation of the nature of the rights which we consider were obtained by the United States in Article IV of the May 18, 1942 Agreement. Rather, it seems to me, it may be primarily a matter of conciliating the rights of jurisdiction under Article IV which we consider essential to the defense of The Panama Canal, with the essential attributes of sovereignty which Panama considers were retained by Panama under Article IV.

The Judge Advocate's memorandum of May 26 states that while it would be possible without such legislation as that contemplated in S. 1115 for criminal offenses committed by military personnel and civilian employees of the War Department and such other persons as may come within the provisions of Article of War 2 to be tried by courts-martial, there would be no forum short of a court in the United States and in some cases not even there in which civil actions which might arise from acts of military or civil personnel and their families committed on those sites could be tried. In considering this matter, the question at once arises as to the procedure followed in the case of civil actions of the nature cited which arise from acts of military or civil personnel on defense sites made available to the United States in other countries of Latin America, for instance, on the Galápagos Islands, at Salinas, in Costa Rica, Guatemala, etc., as well as in the bases in the British West Indies. I have inquired of the military authorities here regarding this point but have been informed that they have no information concerning it. Presumably, I was informed, such actions have to be taken to some court in the United States. If this is the case, it would seem that a similar procedure might well be considered as regards such actions occurring on the defense sites in the Republic of Panamá.

⁷ Lt. Gen. George H. Brett.

⁸ One of the overseas departments of the War Department.

⁹ Col. Eugene F. Smith.

¹⁰ Neither printed.

I am informed that the main purpose of the military authorities in drafting the Bill was to insure that United States personnel on the defense sites have the same opportunity to have recourse to United States civil courts in the Canal Zone as have United States personnel residing within the Canal Zone. This would seem to constitute exactly the case which the Government of Panamá makes against the Bill. That Government considers that the defense sites in the Republic of Panamá can in no way be assimilated to the Canal Zone. Panamá considers that it granted the United States the temporary use of these defense sites not for the permanent and broader objectives relating to the Canal Zone, but for purposes strictly limited not only in time but in nature, i.e., purposes of national defense during the present emergency. Obviously it would be more convenient for United States personnel on the defense sites to have the Canal Zone courts exercise jurisdiction over civil questions affecting them, rather than have to take their cases to some court in the United States, perhaps after the end of the war. But as against this matter of personal convenience—which seems indeed to have little relation to the essential purpose of national defense—there is, from the point of view of the Government of Panamá, a principle at stake which it regards as important inasmuch as it affects the sovereignty of the Republic.

It would seem rather that the essential purpose of the United States Government in seeking by Article IV to obtain exclusive jurisdiction in all respects over the civil and military personnel of the United States situated on the defense sites, and their families, was to insure that there would be no attempt by Panamanian authorities to assert jurisdiction over such civil and military personnel of the United States and their families, since such attempt might prejudice our defense effort in those areas. We were not primarily concerned with providing a readily accessible forum in the Canal Zone to which military or civil personnel on the defense sites could have recourse for divorce proceedings and the probate of wills.

The Judge Advocate also points out in his memorandum of May 26 that without the proposed legislation there is no forum in which a person other than a Panamanian citizen, charged with maliciously committing any crime against the safety of the military installations in any of the defense sites, may be tried if that person is not one of those subject to trial by a military tribunal. He points out for example that a national of a friendly country (other than Panamá) not an employee of our Government, who wilfully and without authority entered one of the sites and stole or destroyed defense equipment could not be tried by a military tribunal. It occurs to me that an appropriate remedy for this situation, since in any case legislation must be enacted by the United States Congress for the trial of such

offenders, would be to empower United States military tribunals to try such offenders within the defense sites in the Republic of Panamá during the period of temporary occupation contemplated by the May 18, 1942 Agreement. Or it may be that the jurisdiction of military tribunals could be extended in this respect by order of the Secretary of War, without necessity of legislation—I am not informed on this point.

Respectfully yours,

EDWIN C. WILSON

711F.1914/709

The Secretary of State to the Ambassador in Panama (Wilson)

No. 2626

WASHINGTON, June 29, 1943.

SIR: The Department refers to your despatch no. 4156 of May 26, 1943 enclosing a note, no. 5253 dated May 25, 1943,¹¹ from the Ministry of Foreign Affairs with relation to S. 1115, a bill to provide for the exercise by the United States of certain jurisdiction over persons within areas in the Republic of Panama, the temporary use of which for defense purposes is granted to the United States.

The note states that the Government of Panama considers that the exercise by civil courts of the Canal Zone of jurisdiction in the areas covered by the Defense Sites Agreement is not in accordance with the text and spirit of Article IV of the Agreement and that the extension to the defense sites of legislation of a general character applicable to civilian communities in which the United States acts as territorial sovereign is incompatible with the retention by Panama of sovereignty over the defense sites as provided for in Article IV of the Agreement. You state that it is the desire of the Government of Panama to avoid the creation or the appearance of the creation of any "little Canal Zones" in Panamanian territory or the extension to territory under the jurisdiction of Panama of the Canal Zone regime. The Ministry of Foreign Affairs apparently considers that the jurisdiction granted to the United States by Article IV of the Defense Sites Agreement should be exercised by its military tribunals.

The questions raised have been discussed with the War Department at whose instance S. 1115 and its companion bill, H.R. 2822, were introduced. The War Department has indicated its willingness to amend the proposed legislation in such a way as to make it clear that the United States is not endeavoring to create "little Canal Zones" on Panamanian territory but is simply enacting the minimum legislation necessary in order to be able to exercise the right granted by Article IV "to arrest, try and punish all persons who, in such areas, maliciously commit any crime against the safety of the military installa-

¹¹ Neither printed.

tions therein". Courts-martial of the United States exercise jurisdiction only over members of the armed forces of the United States and civilians connected with such forces. It would thus be impossible at present for such courts to punish offenses against the safety of military installations in the defense sites if committed by other persons. It is not considered desirable to attempt to amend the Articles of War to extend the jurisdiction of courts-martial to punish civilians generally even for offenses of the nature indicated. In order therefore to punish persons over whom courts-martial have at present no jurisdiction and who commit offenses against the safety of military installations in the defense sites it is necessary to extend American law to offenses committed in such areas. It is also necessary to give to the nearest United States court jurisdiction of such offenses in much the same way that jurisdiction to punish crimes committed on the high seas rest in the district court of the United States of the first district into which the offender is brought. In this connection it is pointed out that there is nothing in Article IV which requires the "exclusive jurisdiction" conferred on the United States to be exercised in any particular way or by any particular type of tribunal.

The amendments to S.1115 and its companion bill which the War Department is prepared to make out of deference to Panama are as follows:

a. Limitation of the term of the legislation to the term of the Defense Sites Agreement. Add a new section, as follows:

"Sec. 5. The provisions of this Act shall terminate one year after the date on which the definitive treaty of peace which brings about the end of the present war shall have entered into effect; *Provided* that this limitation shall not be construed to divest any court of jurisdiction over proceedings begun prior to that date."

The effective date of termination is expressed in the precise language of Article I of the Agreement.

b. Eliminate the exercise of civil jurisdiction. While the War Department is of the opinion that Article IV is broad enough to include a grant of civil jurisdiction in controversies between Americans in the defense areas, such jurisdiction is not considered essential to the protection of the areas in question, and consequently, in view of the Panamanian objection, may safely be eliminated from the pending bills. The following changes are necessary to effectuate this amendment:

- (1) Delete section 1 (a) of the bill.
- (2) Amend section 1 (b) to read:

"(a) Over all criminal proceedings wherein a member or members of the class which includes the civil and military personnel of the United States and their families situated in the areas of land and water covered by the agreement are defendants; and"

(3) Renumber section 1(c) as section 1(b).

(4) Amend the first two lines of section 2 (lines 12 and 13 of page 3 of the bill) to read as follows:

“Sec. 2. The jurisdiction conferred by section 1 of this Act shall, in all criminal proceedings,”

c. Recognize Panamanian sovereignty in terms. Add a new section as follows:

“Sec. 6. Nothing herein contained shall be deemed in any way to infringe the sovereignty of Panama in the areas of land and water covered by the agreement, which sovereignty is expressly recognized in Article IV of the agreement.”

d. Provide expressly that the Canal Zone courts are not to sit outside the Canal Zone. The War Department is of opinion that the fair intendment of section 3 of the bill is that offenders shall be brought into the Canal Zone for trial, rather than that the Canal Zone courts shall repair to the defense areas. Consequently, it has no objection to a proviso which shall clarify this point. To effectuate this change, the following should be added at the end of section 3:

“*Provided*, that nothing in this Act shall be construed to authorize either the district court or the several magistrates’ courts to sit outside the limits of the Canal Zone.”

e. Change the title of the Act. In order to make it abundantly clear that the only purpose of the legislation is to implement the Agreement, and not to extend the limits of the Canal Zone, the War Department is prepared to agree to amend the title of the bill so as to read “A Bill to implement Article IV of a certain agreement concluded on May 18, 1942, between the Government of Panama and the Government of the United States of America.”

The Department feels that the amendment of the bills in the manner indicated should allay any apprehension of the Panamanian Government that it is the intention or desire of the United States to extend the Canal Zone regime in any manner to the areas covered by the Defense Sites Agreement. It is necessary in order to protect the military installations in such sites that the United States be able to exercise the jurisdiction granted to it by Article IV of the Agreement which it is observed from your telegram no. 274 of May 26, 1943 the Acting Minister for Foreign Affairs has assured you the Panamanian Government has “not the slightest intention of contesting or calling in question”.

The bills referred to above are before the Judiciary Committees of both Houses of Congress and while the Department can give no assurance that action will not be taken thereon it will endeavor to have such action deferred until you have had an opportunity to discuss the matter with the Ministry for Foreign Affairs in the sense indicated

above. If the solution suggested is acceptable to the Ministry you will please inform the Department by telegraph in order that legislation which will permit this Government to punish offenses against military installations in the defense sites may be provided as expeditiously as possible.

Very truly yours,

For the Secretary of State:

SUMNER WELLES

711F.1914/726

The Ambassador in Panama (Wilson) to the Secretary of State

No. 4373

PANAMÁ, July 21, 1943.

[Received July 24.]

SIR: I have the honor to refer to my airgram No. A-847, July 3,¹² in relation to the Department's instruction No. 2626 of June 29 regarding amendments which the War Department is prepared to make in the bills pending before Congress providing for the exercise of jurisdiction by the United States within the defense sites.

As reported in my airgram I discussed this matter the morning of July 3 with the Foreign Minister. I left with him the text of the amendments to S. 1115 and its companion bill which the War Department is prepared to make, as given on pages 2-3 of the Department's instruction. I also urged the Minister, in line with the last paragraph of the Department's instruction, to give me a reply in this matter as quickly as possible. Dr. Fábrega¹³ has told me on frequent occasions since July 6 that he expected at any moment to be able to furnish me his Government's views in this matter. It is only today, however, July 21, that I have received from the Foreign Office the attached confidential memorandum, (in single copy) bearing the date of July 14, 1943.¹⁴ This memorandum—an office translation is also attached—gives the point of view of the Government of Panamá as expressed at the Cabinet meeting of July 6 regarding the amendments which the War Department is prepared to make in the bills.

I should appreciate receiving the Department's instructions as to the position which it is desired that I take concerning the Panamanian point of view as set out in its confidential memorandum.

Respectfully yours,

EDWIN C. WILSON

¹² Not printed.

¹³ Octavio Fábrega, Panamanian Minister for Foreign Affairs.

¹⁴ Not printed; it indicated objection to jurisdiction by the Canal Zone District Court as incompatible with Panamanian sovereignty, to treating residence in the defense sites as equivalent to residence in the Canal Zone, and to treating as defense sites areas conceded under "substantially similar" terms.

711F.1914/726

The Secretary of State to the Chargé in Panama (Muccio)

No. 3004

WASHINGTON, January 15, 1944.

SIR: Reference is made to the Embassy's despatch no. 4373 of July 21, 1943 enclosing a copy of a memorandum of July 14, 1943 from the Foreign Office indicating the position of the Panamanian Government on the changes proposed by this Government in order to satisfy Panamanian objections to S. 1115, a bill to extend the jurisdiction of Canal Zone courts to certain defense sites obtained from Panamá.

I am enclosing, for your information, a copy of a confidential memorandum of January 3, 1944, from the War Department,¹⁵ on the matter. The memorandum should not be made available to the Panamanian Government but in the event that further communication is considered necessary, you may inform the Foreign Office that pending further experience as to the necessity for legislation of the nature indicated, the War Department has decided to leave the matter in abeyance.

Very truly yours,

For the Secretary of State:
A. A. BERLE, JR.

DISCUSSIONS CONCERNING THE MANAGEMENT OF THE WATER AND
SEWER SYSTEMS OF PANAMA AND COLON

711F.1914/482

The Secretary of State to the Ambassador in Panama (Wilson)

No. 2289

WASHINGTON, February 3, 1943.

SIR: Reference is made to the Department's instruction no. 821 of May 25, 1942,¹⁶ regarding the preparation of a concise proposal for a management contract under the provisions of which The Panama Canal would continue to operate the water and sewerage systems in the cities of Panamá and Colón once the title to them has been transferred to the Panamanian Government.¹⁷ The Department informally has been advised both by the Governor¹⁸ and the Executive Secretary of The Panama Canal¹⁹ that some thought has been given

¹⁵ Not printed.

¹⁶ *Foreign Relations*, 1942, vol. VI, p. 609.

¹⁷ According to Point 1 of the Twelve Point Agreement of May 18, 1942 (Department of State Executive Agreement Series No. 452; 59 Stat. (pt. 2) 1289), the United States transferred to Panama, free of cost, the sewer and waterworks systems of the cities of Colon and Panama. Those cities were permitted, however, to continue to receive water supplies and use the sewer system of the Canal Zone. For correspondence on this agreement, see *Foreign Relations*, 1942, vol. VI, pp. 577 ff.

¹⁸ Maj. Gen. Glenn E. Edgerton.

¹⁹ S. W. Wang.

to the drafting of such a proposal. Your report on any progress which has been made in this respect will be appreciated. It is requested that you urge the completion of a first draft and suggest that it be presented to the Embassy and the Department for examination from the political point of view.

In anticipation of the approval by the Congress of the pending legislation affecting Panama,²⁰ and assuming that this will take place in the next few months, it would seem that immediate consideration should also be given to the form and phraseology of the documents that will be drawn up to affect the legal transfer to Panama of the water and sewerage systems and the railroad lots. Officers of the Department in a preliminary way discussed with Mr. S. W. Wang, the Executive Secretary of The Panama Canal, during his recent visit to Washington, some of the questions which undoubtedly will arise in the preparation of whatever instruments of conveyance are used. Mr. Wang was definitely of the opinion that the drafting of these documents should be initiated by Canal Zone authorities in Panama where easy consultation could be arranged with employees of your staff. He expressed his willingness to begin this draft immediately upon his return to the Canal Zone.

In the case of the transfer of the railroad lots,²¹ the instrument of conveyance presumably will be drawn up in conformity with the laws of Panama. Whether this conveyance is made by quitclaim deed or by warranty deed would seem to be important, inasmuch as there may arise out of the very nature and type of deed used to transfer the lots, the question of this Government's title to those lands which are being retained as necessary for the operation of the railroad and the operation, maintenance, sanitation and protection of the Panama Canal. Since Panama has constantly maintained that the title to the railroad lots would revert to that Republic in 1966,²² it seems advisable, if possible, to draft the instrument of conveyance in such a way as to gain recognition (even if by implication) from the Panamanian authorities that this Government has full and legal title to the lots which are not being transferred at this time. Mr. Wang seemed to think that for the best interests of this Government a transfer by warranty deed would be preferable. As you are aware, there appears to be no question about the titles to the lots in Panama City since the land there was acquired by direct purchase.

²⁰ Certain parts of the Twelve Point Agreement which involved the transfer of property were subjected to Congressional approval.

²¹ Point 2 of the Twelve Point Agreement provided for the transfer to Panama, without cost, lands of the Panama Railroad Company not needed for operating the canal, its auxiliary works, or the railroad.

²² This claim was based on the contention that Panama succeeded to the rights of Colombia and New Granada with respect to the 99-year lease granted to the Panama Railroad Company in 1867 by New Granada.

You are requested to discuss with the appropriate Canal Zone authorities the preparation of these documents referred to above and to keep the Department informed of the outcome of your conversations. In due course, the Department will expect you to submit for its examination copies of whatever draft documents are agreed upon.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

711F.1914/652

The Ambassador in Panama (Wilson) to the Secretary of State

No. 3685

PANAMA, February 17, 1943.

[Received February 23.]

SIR: I have the honor to refer to the Department's instructions No. 821 of May 25, 1942,²³ and No. 2289 of February 3, 1943, regarding the preparation of a concise proposal for a management contract under the provisions of which The Panama Canal would continue to operate the water and sewerage systems in the cities of Panamá and Colón once the title to them has been transferred to the Panamanian Government. (For a review of conversations with Canal Zone authorities in an effort to obtain a draft of a management contract please see third paragraph of my letter to Mr. Bonsal²⁴ dated November 2, 1942).²⁵

Governor Edgerton has now furnished me, under date of a transmitting letter of February 8, 1943, with a memorandum of February 5²⁶ prepared by Colonel C. G. Holle, Assistant Engineer of Maintenance, on the subject of the proposed transfer of the water and sewerage systems of the cities of Panamá and Colón. Governor Edgerton has informed me that his memorandum was submitted as a basis for discussions with me on the subject, and that before formulating any conclusions more definite and final than it presents, he desired to discuss this rather complicated subject with me at more length. I have today had a discussion of the subject with the Governor, and report hereinafter in more detail concerning such discussion. In the meanwhile, and while recognizing that Colonel Holle's memorandum was prepared merely as a basis of discussion, I think it advisable to transmit herewith a single copy for the Department's information, since the memorandum presents information which will be of considerable interest to the Department. Incidentally, Governor Edgerton expects to leave the Canal Zone in a few days for Washington to attend

²³ *Foreign Relations*, 1942, vol. VI, p. 609.

²⁴ Philip W. Bonsal, Chief of the Division of the American Republics.

²⁵ Not printed.

²⁶ Neither printed.

the hearings on The Panama Canal budget, and he will undoubtedly call at the Department, as is his custom, in order to discuss with officials of the Division of the American Republics matters relating to Panamá.

I shall cover hereinafter the more important points discussed this morning with Governor Edgerton:

(1). *Question of authority for The Panama Canal to enter into a management contract with the Republic of Panamá.* (Paragraph 3, Holle memorandum).

It was agreed that statutory authority would probably not be required and that The Panama Canal could enter into a contract with the Republic of Panamá to manage the water and sewerage systems if authority to do so were conveyed to the Governor by the President of the United States. Presumably the President, after Congress has approved the pending legislation affecting Panamá, will issue an Executive Order authorizing the transfer of the railroad lots and the water and sewerage systems. In the Executive Order the President could also authorize the Governor of The Panama Canal to make appropriate arrangements, if desired by Panamá, to continue to operate the water and sewerage systems once they are passed to Panamanian ownership, as a measure of cooperation with Panamá, for such period as may be desired by Panamá. Probably the first document which should be drafted and considered by the State Department is the text of the Executive Order. Governor Edgerton's office will draft this Executive Order and will consult with the Embassy regarding it, after which the draft will be forwarded to the State Department.

(2). *The water and sewerage systems of New Cristóbal.*

Colonel Holle's memorandum treats in detail of this question (paragraph 5, K (3), pages 9-12). It will be noted that the recommendation is made that, because of the special situation of the water and sewerage systems of New Cristobal,²⁷ these systems should not be transferred to Panamá but should be retained by the United States, and that this point be clarified in the Congressional hearings and the Joint Resolution amended accordingly. As a result of the conference this morning, Governor Edgerton is now in accord with me that, despite the special considerations which set the New Cristobal systems apart from the Panamá City and Colón systems, nevertheless the spirit and intent of the agreement between the United States and Panamá in this matter, as set forth in the May 18, 1942, exchange of notes, and reflected in the Joint Resolution introduced in the present Congress, would seem to have been to include the New Cristobal systems, and that it therefore would be inadvisable to urge on Panamá the contention that the New Cristóbal systems should be retained by

²⁷ Most of the Canal employees of Cristóbal lived in this section of the city.

the United States. We agreed, however, that while the New Cristobal systems should be included in the transfer instrument and pass to Panamá, nevertheless an attempt should be made, when it comes to discussion of the management contract with Panamá, to make a separate arrangement covering the operation of the New Cristobal systems which would leave the operation and management of these systems entirely in the hands of The Panama Canal. I agreed, at the Governor's request, that at an appropriate time I would take this aspect of the matter up with the Panamanian officials and attempt to obtain their consent to it. The argument would be that, in the first place, the capital costs of these utilities in New Cristobal were not added to the capital costs of the Colón systems, and that Panamá has never been charged for amortization or interest on the New Cristobal systems. Furthermore, Panamá has never contributed to the cost of repairs and maintenance of the water and sewerage systems in New Cristobal, nor to the cost of repair and maintenance of pavements, nor to the cost of cleaning the streets and the collection of garbage in New Cristobal. The entire cost for all of these services in New Cristobal has been met by the United States, whereas in Colón and Panamá City the cost of these services has been charged against the water rates. Also the water into individual Panama Canal quarters is not metered and it would, therefore, be impossible to bill the individual residents for the water consumed on a quantity basis. In view of the above considerations, and others brought out in Colonel Holle's memorandum, it would be urged upon the Panamanian Government that an agreement be reached permitting The Panama Canal to continue to operate the water and sewerage systems in New Cristobal, collecting water rents from the United States employees living in that area, and applying such rates to the partial reimbursement of the cost of maintenance and repair of these systems, as well as of the maintenance and repair of pavements, and the cost of street cleaning and garbage collection. The balance of the cost of these services in New Cristobal would be met by the United States.

I have some doubt whether Panamá will agree to the special status of the New Cristobal systems for operation purposes as outlined above. Such an arrangement might be regarded by Panamá with suspicion as an opening wedge in a renewed drive to obtain political jurisdiction for the United States over New Cristobal. The advantages, however, of such an arrangement are so obvious that they would seem to warrant an attempt to obtain Panamá's agreement, and I shall therefore at some suitable moment broach the matter to the Panamanian authorities.

As regards the operation of the water and sewerage systems of Colón and of Panamá City, there would be proposed to Panamá a draft management contract along the general lines of the outline set

forth on pages 16–19 of Colonel Holle's memorandum. In addition, there would be stipulations in the contract for the training of Panamanians so as to provide increased participation of Panamanian personnel in sanitation activities in these cities, in accordance with the exchange of notes accompanying the General Treaty of March 2, 1936.²⁸ There might also be a clause inserted in the management contract which would refer to the Joint Board (two representatives of Panamá and two of The Panama Canal) appointed in 1940 on the basis of the exchange of notes attached to the 1936 treaty, to make recommendations on this question of training additional Panamanian personnel, as well as on other technical problems.

(3). *Transfer instrument.*

The transfer instrument would follow the outline set forth on pages 14–16 of the Holle memorandum, omitting of course the suggestion under paragraph 7-*a* that the water and sewerage systems of New Cristobal be retained by the United States. Also, as recommended in paragraph 7-*f*, the provision of the exchange of notes of May 18, 1942, that employees of The Panama Canal and Panama Railroad residing in Panamá not be charged more than other residents of Panamá and Colón for similar services, should be expanded in the transfer instrument to cover all employees and agencies of the United States.

As indicated at the outset of this despatch, the Governor's office will begin immediately drafting of the Executive Order to be issued by the President covering the transfer of the railroad lots and the water and sewerage systems and conveying authority to The Panama Canal to operate the latter utilities if desired by the Government of Panamá. The Governor's office will also begin the drafting of the transfer instrument and the management contracts. Governor Edgerton will wish to discuss these drafts with me after his return from Washington, and as soon as we have conferred and reached agreement concerning them I will transmit the drafts to the Department for consideration.

Respectfully yours,

EDWIN C. WILSON

711F.1914/693

The Ambassador in Panama (Wilson) to the Chief of the Division of the American Republics (Bonsal)

PANAMÁ, April 21, 1943.

DEAR PHIL: In my letter of yesterday, April 20,²⁹ I mentioned that I am now working along the line of trying to obtain the consent of the Panamanian Government to retention by the United States of control

²⁸ Department of State Treaty Series No. 945; 53 Stat. (pt. 3) 1807.

²⁹ Despatch No. 3990, not printed.

over the water and sewerage systems in New Cristobal, feeling that if this can be done it will go far to remove a potentially important source of friction in the future between the United States community in New Cristóbal and the Panamanian authorities.

One point which has importance in connection with this matter has now come up, of which I desire to inform you in order that you may be posted, in the event the necessity for rapid decision and action by the Department becomes necessary. In a further conversation with Dr. Fábrega ³⁰ concerning this question of the special status of the water and sewerage systems in New Cristobal, he mentioned that he was aware that the Panama Canal had collected in water rates in the cities of Panamá and Colón during the past years a sum over and above the amount applied to expenses and to amortization and interest, of some \$500,000. He said that it was his understanding that this sum belonged to Panamá and would be returned to Panamá at the time of transfer of the water and sewerage systems. He said that this amount of money, which had been collected by the Panama Canal as "excess amortization" was almost equivalent to the existing unamortized balance. In other words, if the United States should retain these monies it would mean that Panamá had in fact paid complete amortization up to the date of 1957 on the systems, and Panamá would receive no benefit from the United States beyond advancing the date for transference of all of the systems. He said that it had been generally understood in Panamá, and this had been brought out in the hearings in Washington, that the United States had desired to undertake a generous action towards Panamá as regards the water and sewerage systems, and to waive the unamortized balance which Panamá owed under the 1903 Treaty.³¹ He pointed out that the rate and rhythm of amortization of these systems was specified in Article VII of the 1903 Treaty, which provided in effect that the United States would collect water rates sufficient to amortize the principal cost of the works within a period of fifty years. Any "excess" amortization over and above the rate specified in the treaty, of course belonged to Panamá and not to the United States. Dr. Fábrega then made the statement that if Panamá were to agree that ownership of the New Cristobal water and sewerage systems should not pass to Panamá but should be retained by the United States, this would be more readily acceptable and understood by Panamanian opinion if it were known that Panamá was in fact receiving the benefit of waiver by the United States of the unamortized balance on the Colón and Panamá City systems. If, on the other hand, the United States should in effect pay itself as of the date of transfer of the systems the

³⁰ Octavio Fábrega, Panamanian Minister for Foreign Affairs.

³¹ *Foreign Relations*, 1904, p. 543; Treaty Series No. 431; 33 Stat. (pt. 2) 2234.

total amount of amortization, contrary to the expectations of Panamá, then it would be very difficult to understand why Panamá should be called upon to agree that the New Cristobal systems should remain in the hands of the United States.

Immediately after my conversation with Dr. Fábrega I spoke with Governor Edgerton, who confirmed to me that the Panama Canal had in fact collected a sum considerably in excess of the \$500,000 mentioned by Dr. Fábrega from the water rates over and above the amount which had been applied to amortization. In fact, the Governor said that there was on hand today an excess sum of monies collected in water rates which almost equalled the unamortized balance. Governor Edgerton said that he believed there had been a phrase included in the exchange of notes of May 18, 1942, relating to the accounts for the water works and which provided in effect that the books would be closed as of date of transfer of ownership with no refund to Panamá. We looked up the phraseology in the exchange of notes and found the sentence reading:

“It is understood that there will be no refund to Panamá of amortization and interest payments or charges of any kind based on the Convention of 1903 and on the contracts of September 30, 1910.”

It appears, however, that this excess amount collected by the Panama Canal was *not* applied to amortization or interest, but has been held out as a separate fund. It has not been paid into the Treasury as general receipts, and is still available for disbursement by the Panama Canal, although the Governor believes that the consent of the Comptroller General would have to be obtained to pay it out.

The Governor states that the contracts of September 30, 1910 provided that water rates collected in excess of the treaty rate of amortization could be applied to additional amortization. In fact, however, the excess monies collected were *not* so applied, but have been retained, as stated above, as a separate fund.

Under the circumstances, it seems to me clear as a matter of good faith and fair dealing with Panamá, that this sum collected by the United States from the water rates in Panamá over and above the treaty rate of amortization, and which has not been applied to amortization, should be returned to Panamá at the time of transfer of the water and sewerage systems. In fact, I think there can be no doubt, as I am at present advised, that this sum of money belongs to Panamá and always has belonged to Panamá and that there can be no justification for its retention by the United States. Certainly it has been contemplated throughout this negotiation concerning the transfer of the water and sewerage systems, and this is brought out from the hearings on the legislation in Washington, that the United States intended to forgive to Panamá the unamortized balance of approximately

\$800,000. For the United States now to seek to appropriate to itself a sum belonging to Panamá approximately equal to this unamortized balance, and therefore in effect to make no waiver whatsoever of the unamortized balance would be contrary to the spirit and to the letter of what the United States and Panamá have agreed.

Futhermore, and quite apart from the considerations of right and good faith involved, it is quite obvious that if we should seek to retain this sum of money belonging to Panamá, there would be no possibility whatsoever of obtaining Panamá's consent to continuing ownership by the United States of the New Cristóbal water and sewerage systems. This latter point is of utmost importance, in my judgment, and, apart from all other considerations, we should make every effort to continue this ownership.

It may be that, during future conversations with the President and the Foreign Minister, the question may be raised definitely in the form that Panamá will agree to continue United States ownership of the New Cristobal systems provided it is clearly understood that no obstacles will be placed in the way of return to Panamá of the excess amount collected in water rates. In such case I may have to telegraph the Department and urge an early and definite reply, and it is with this in mind that I am outlining this question so that you may be giving consideration to it.

With all best wishes,

Yours most sincerely,

EDWIN C. WILSON

711F.1914/694

*The Chief of the Division of the American Republics (Bonsal) to the
Ambassador in Panama (Wilson)*

WASHINGTON, May 5, 1943.

MY DEAR MR. AMBASSADOR: I refer to your letter of April 21, 1943 relative to the retention by the United States of control over the water and sewerage systems in New Cristóbal and particularly to that part of your discussion regarding the disposition of the net surplus of approximately \$500,000 resulting from water revenue collections in the Republic of Panama. You state that this money is being held by the Canal Zone authorities in a separate fund. Upon the receipt of your letter I asked Mr. Wise ³² to make a study of the question of the surplus revenues. Attached for your information is a copy of a memorandum dated May 1, 1943 ³³ prepared by him as a result of his investigation and discussion with the Legal Adviser's office.

³² Murray M. Wise, Division of the American Republics.

³³ Not printed; Mr. Wise concluded that the United States should not turn over the fund to Panama.

It is my recollection that in choosing the phraseology for that part of the Department's note of May 18, 1942 relating to the accounts for the water works, this Government intended to avoid the possibility of being called upon to make any cash refund whatever to Panama as well as to avoid any controversy with Panama regarding our bookkeeping. You will recall from the minutes describing the meetings between the Under Secretary and the Panamanian Foreign Minister in Washington during the summer of 1941,³⁴ the latter indicated that he had some misgivings about our system of accounts. We have of course no commitment whatever to Panama relative to the amount of the value of the unamortized balance of the water works.

It is my opinion that it would be a mistake to turn this \$500,000 over to the Government of Panama even if it were legally possible to do so. Instead, since this sum was collected from users of water, I think it should be expended for their benefit. Perhaps the management contract now under consideration locally could include a provision regarding expenditures to be undertaken by us from the amount in question. I definitely feel that this sum should neither be devoted to the general purposes of the Government of the United States, nor to the general purposes of the Government of Panama, but should be spent in some way which would directly benefit the consumers of water in both Colon and the City of Panama.

I hope that the above will meet with your approval and that you will endeavor to bring the Panamanian authorities around to this point of view.

With best regards,
Sincerely yours,

P[HILIP] W. B[ONSAL]

711F.1914/701

The Chief of the Division of the American Republics (Bonsal) to the Ambassador in Panama (Wilson)

WASHINGTON, May 17, 1943.

MY DEAR MR. AMBASSADOR: I refer to our recent correspondence regarding the disposition of the net surplus resulting from the water revenue collections in the Republic of Panama and acknowledge the receipt of your letter of May 7, 1943, with its enclosed copy of a communication, dated May 4, from Governor Edgerton to you.³⁵ I note that the surplus is considerably larger than we had thought; namely, some \$900,000 rather than \$500,000. I feel, and believe that you agree with me, that it would be highly undesirable for us to engage

³⁴ For correspondence concerning these meetings, see *Foreign Relations*, 1941, vol. VII, pp. 442 ff.

³⁵ Neither printed.

in any discussion whatsoever with the Panamanian Government relative to the amount of this surplus.

Fortunately, Governor Edgerton is not strongly advocating that the remaining unamortized capital cost of some \$824,000 be liquidated from the existing surplus for I concur fully with you that this would not be the proper method of disposing of these funds. In presenting the legislation to the Congress it was made perfectly clear that the enactment of the bill would relieve Panama of all further obligation of amortization and interest payments. The House and Senate were never led to believe that the unamortized value would be collected in any way from Panama. It was contemplated that the legislation would wipe out all Panamanian indebtedness, in so far as the water and sewerage installations were concerned.

I was glad to note your reaction to my suggestion that this surplus fund should be expended for the benefit of the users of water from whom the monies were originally collected. I did not wish to imply, however, that this fund should be applied to the cost of operation of the water and sewerage systems, or to garbage disposal in the cities of Panama and Colon. In fact, I feel strongly that the surplus water fund should be used only for capital purposes.

I have examined again our files and find that in a memorandum of March 20, 1942 ³⁶ Dr. Stayer, Chief Health Officer of The Panama Canal, pointed out the following to Governor Edgerton with respect to the current condition of the water and sewerage systems:

"The aqueducts of both sewerage and water systems are old, the terra cotta of the sewers has resulted in seepage, and the corrosion of the water pipes is such that renewals in the near future will be required at considerable expense. It is not beyond some doubt that such deteriorated materials would lead to cross-infection from sewers to water system and since any cross-contamination would be a health hazard to Canal Zone residents as well as residents of Panama, it is best to keep control of the entire systems. The cost of replacing worn aqueducts would be prohibitive from the Republic of Panama standpoint."

As you know and have pointed out to the Department so many times, it is very necessary that these installations be kept in good repair in order to avoid unsanitary conditions in such a vital and strategic area of the Isthmus. Obviously, the Panamanians are not able either financially or technically to make the repairs which are needed. Since the application to repairs on the water and sewerage systems of the surplus under discussion would apparently relieve Panama of appreciable expenditures in the very near future I am inclined to feel that it will not be difficult to obtain complete agreement from the interested parties regarding this use of the surplus fund.

³⁶ Not printed.

I shall be anxious to hear from you again on this question and to be kept fully informed on the development of Governor Edgerton's thoughts on the matter.

With best regards,

Sincerely yours,

P[HILIP] W. B[ONSAL]

711F.1914/714

*The Ambassador in Panama (Wilson) to the Chief of the Division
of the American Republics (Bonsal)*

PANAMA, May 26, 1943.

DEAR PHIL: I acknowledge receipt of your letter of May 17, 1943, in further reference to the disposition of the surplus collected from the water rates in the Republic of Panamá.

I am glad to note that you are of the opinion that it would not be the proper method of disposing of these funds to use them to liquidate the remaining unamortized capital cost of the systems from this existing surplus.

I also note that you feel strongly that this surplus water fund should be used only for capital purposes. In this connection you will have seen from my letter of May 19,³⁷ which crossed your letter of May 17, that I had already adopted the idea of devoting the surplus to needed repairs of the systems, and that I had made a suggestion in this sense both to President de la Guardia and to Dr. Fábrega.

Governor Edgerton tells me that without having made a detailed estimate of the cost of repairs required by the systems and which have been deferred during the emergency, he believes that the cost would be between \$200,000 and \$300,000, certainly not beyond the latter figure. He mentioned that as a matter of fact the amounts spent on repairs of the systems during the emergency compare rather favorably with amounts spent for similar purposes prior to the emergency. Nevertheless, he believes that up to \$300,000 could be well spent on additional repairs to the systems. Inasmuch as the surplus is now something over \$900,000, and is being increased at the rate of about \$25,000 a month, this would mean that with the earmarking of \$300,000 for repairs we would still have a surplus at the time we transfer the systems to Panamá of close to \$700,000. Governor Edgerton also informs me that expenditures on capital cost account of the water systems should be made in the residential section of Panamá City beyond Bella Vista, where the Panamanian Government installed water pipes too small in size to provide adequate pressure. This residential section has been developed considerably of late and will

³⁷ Not printed.

receive much greater development in the post-war period, and Governor Edgerton believes it would be desirable to install additional water pipes in order that that section may be properly serviced. We do not know as yet what the estimated cost of such installation would be and presumably it would still leave a balance available for capital purposes from the surplus.

[Here follows a discussion of legal aspects of the question of applying the fund to amortization or to repairs.]

With best of wishes,

Yours very sincerely,

EDWIN C. WILSON

711F.1914/736

*Memorandum of Conversation, by the Ambassador in Panama
(Wilson)*³⁸

PANAMA, July 28, 1943.

Governor Edgerton and I called today by appointment on the Minister for Foreign Affairs and handed him for his consideration the attached draft of instrument of transfer to Panamá of the water and sewerage systems in the cities of Panamá and Colón and agreement respecting incidental and related matters (this draft is copied from the fourth draft enclosed with Governor Edgerton's letter to me of July 7, 1943).³⁹

We explained at the outset that this draft was prepared on the basis of transferring only the systems in the cities of Panamá and Colón, and retention by the United States of the New Cristobal systems. In this connection I referred to the various conferences I had had with the President and the Foreign Minister at which I had explained the reasons which made this appear advisable, and to conversations which Governor Edgerton also had had with the President on this subject. Dr. Fábrega said that he recalled that we had discussed alternative ways of handling this matter, one being a transfer to Panamá of the New Cristobal systems as well but with provision in the transfer instrument for continued operation and maintenance by the United States, the United States to assume all cost of such operation and maintenance and Panamá agreeing not to charge the United States for the water consumed in that area. He said that he preferred an arrangement along this line rather than that proposed in our draft, which provided for continued ownership by the United States of the

³⁸ Copy transmitted to the Department by the Ambassador in Panama in his despatch No. 4473, August 11; received August 18.

³⁹ A copy of Governor Edgerton's letter of July 7 and its enclosures (memorandum of Acting General Counsel, dated June 16, 1943, and two drafts of instruments of transfer) were transmitted to the Department by the Ambassador in Panama in his despatch No. 4349 of July 15; none printed.

New Cristobal systems. He said, however, that he would study the draft and would lay it before the Panamanian Government for consideration, advising us as soon as possible of the Government's views in the matter.

With reference to paragraph 4 of the draft, Dr. Fábrega pointed out that the United States presumably would continue not only to maintain and repair the pavements in New Cristobal, but also to provide for garbage collection and street cleaning. We agreed to this—the omission of reference to these matters had taken place inadvertently in preparing the draft.

As regards the disposition of the surplus funds (paragraph 5 of the draft), we had some discussion. We went over familiar ground discussed in past conferences, Dr. Fábrega stating that it was his belief that the phraseology employed in the exchange of notes of May 18, 1943 [1942], had protected the right of the Panamanian Government to receive the surplus funds, and I pointing out the view of the State Department that the phraseology of the exchange of notes definitely relieved the Government of the United States of making any refund to Panamá. Dr. Fábrega said that he would appreciate having in writing a statement of the views of the Department of State so that such views could be considered by the Panamanian Government. I said that I would be glad to put these views in writing and send them to him.

It was agreed that Dr. Fábrega would let us know when he was in a position to discuss these questions further.

EDWIN C. WILSON

711F.1914/729 : Telegram

The Ambassador in Panama (Wilson) to the Secretary of State

PANAMA, August 3, 1943—2 p. m.

[Received 9:20 p. m.]

411. Your 356, August 2, 11 p. m.⁴⁰ The idea of a management contract has not been abandoned, paragraph 4 of the draft instrument for transfer of water and sewerage system transmitted with my despatch no. 4349 of July 15th ⁴⁰ was prepared on the basis that that document terminates the responsibility of the United States so far as existing obligations are concerned. Agreement on a management contract, if the Government of Panama desires one will constitute a new obligation which will be defined in the management contract itself and authority for the assumption of which by the United States would be conveyed by the proposed Executive Order.

⁴⁰ Not printed.

With reference to the final paragraph of my despatch no. 4349, Governor Edgerton and I submitted to the Foreign Minister on July 28th the first draft instrument of transfer covering the transfer of the water and sewerage systems in the cities of Panama and Colon only. At our next conference with the Foreign Minister, which is subject to his call, we propose to submit a draft management contract.

WILSON

711F.1914/728

The Secretary of State to the Ambassador in Panama (Wilson)

No. 2702

WASHINGTON, August 4, 1943.

SIR: Reference is made to your despatch no. 4369 of July 20, 1943⁴¹ in which it is reported that the Government of Panama has raised the question, pursuant to the agreement reached by the two governments on item 10 of the Washington exchange of notes, dated May 18, 1942, of moving the Panama railroad station and yards to a new site.

In its original memorandum, dated February 18, 1941,⁴² covering the twelve points in the relations between the two countries with respect to which positive action by the United States was requested, the Panamanian Government set forth its desires regarding the railroad station and yards in the following phraseology:

"That the Railroad move the station to another place within the territory under the jurisdiction of the United States and that the yard and other sites occupied by it remain free and pass to Panama so that communication between the residential districts and the center of the city may be improved."

In a subsequent memorandum of June 23, 1941,⁴³ following informal conversations in Washington between the Under Secretary of State and the Panamanian Minister of Foreign Affairs,⁴⁴ the Panamanian Government developed its views on item 10 to the following extent:

"The Government of Panama sees with satisfaction the promise made by the United States Government to change the railroad station of the city of Panama, so as to facilitate the plans for urban improvement. It considers it advisable, however, that the Government of the United States undertake to change the said station to a spot within the Canal Zone, or under Panamanian jurisdiction, as the Republic of Panama may decide at the time. When the change of the railroad station is made, the present station, the patio used now by the Railroad Company, and the various buildings adjacent to the said patio and belonging to the said Company will pass to the possession of the Government of Panama."

⁴¹ Not printed.

⁴² *Foreign Relations*, 1941, vol. VII, p. 430.

⁴³ *Ibid.*, p. 453.

⁴⁴ Raul de Roux.

In the final exchange of communications with the Panamanian Government on the twelve points this Government's decision with respect to the transfer to a new site of the railroad terminal facilities in Panama City read as follows:

"The Government of the United States agrees to comply with the wishes of the Republic of Panama regarding the removal from their present site of the terminal facilities of the Panama Railroad in Panamá including the station, yards and other appurtenances. This agreement, however, is subject to the making available without cost to the Government of the United States by the Republic of Panama of a new site deemed suitable for the purpose by the two Governments."

From the foregoing it would appear that while this Government is definitely committed to remove from their present site the terminal facilities of the Panama Railroad, subject to the making available by the Panamanian Government of a new site deemed suitable for the railroad station and yards, there was no agreement concerning the time when this project would be undertaken. However, as you are aware, and as Governor Edgerton has rightly pointed out to the Panamanian authorities, this Government has considered the removal of the railroad terminal as an undertaking for the future and as a matter not in any way connected with the transfer to Panama under the provisions of recent legislation of lands not needed for railroad purposes. This Department feels that the Panamanian Foreign Minister has no grounds whatsoever for believing that the deed for the transfer of the railroad lots, now being prepared pursuant to the provisions of United States Public Law No. 48 of May 3, 1943,⁴⁵ should also include the lands now used in Panama City for the railroad terminal. In this connection it should be pointed out that in the Department's description and maps of the lots which are to be transferred to Panama (see exchange of notes, dated May 18, 1942) there was no indication that a transfer of the lands in Panama City currently being used for railroad purposes, was contemplated. In fact, the documents show that the lots covered by the railroad station and yards were marked "Property necessary for Railroad business."

From the beginning of negotiations on the item discussed above the War Department pointed out that the necessity for handling large amounts of incoming freight consisting of defense materials makes it highly inadvisable to interrupt its transportation program by changing during the present emergency the location of the railroad station and yards. Furthermore, until a prudent interval has elapsed after the opening of the Trans-Isthmian and Inter-American Highways,

⁴⁵ This act provided Congressional authority for the Department of State to put into effect three of the twelve points in the agreement of May 18, 1942.

it would seem almost impossible for the Canal Zone authorities to determine the exact requirements under normal peace-time conditions of the Panama Railroad Company for its terminal facilities on the Pacific side of the Isthmus. Then too, there is always the possibility that development in air transportation following the end of the present war may considerably affect the passenger and freight business of the Railroad.

In view of these circumstances this Department is definitely of the opinion that there is no possibility during the present emergency of complying with the Panamanian request for the change in location of the terminal facilities of the Panama Railroad Company in Panama City. For your own information the Department considers that it is highly ill-advised of the Panamanian authorities to raise this issue again at this time. Accordingly, at an early opportunity you are requested to discuss the Department's attitude on this question with the Governor of The Panama Canal and thereafter, in his company, you are requested to make this Government's position unmistakably clear to the appropriate officials of the Panamanian Government.

Very truly yours,

For the Secretary of State:
SUMNER WELLES

711F.1914/734

*Memorandum of Conversation, by Mr. Murray M. Wise of the
Division of the American Republics*

[WASHINGTON,] August 11, 1943.

Participants: The Ambassador of Panama, Mr. Bonsal, and Mr. Wise.

Ambassador Jiménez called at the Department this morning to discuss matters relating to the removal of the terminal facilities of the Panama Railroad Company from their present site to a new location in Panama City. He referred to this Government's commitment, as recorded under Point 10 of the Memorandum of May 18, 1942, to move the station, yards, and appurtenances. The Ambassador called attention to that Section of United States Public Law No. 48, 78th Congress, approved May 3, 1943, which provides that the authority to convey to Panama the lands of the Panama Railroad Company ". . . shall not be exercised after June 30, 1944" and, in that connection, stated that the President of Panama had asked him to discuss with the Department the possibility of taking some action now to earmark for transfer to Panama those lands which are at present being used for railroad terminal facilities in Panama City. (It will be recalled that recently the Panamanian Government raised the question of remov-

ing the railroad station and yards to a new site and that the Department instructed Ambassador Wilson to inform the Panamanian authorities that there would be no possibility during the present emergency of complying with the Panamanian request.)

Mr. Bonsal explained to the Ambassador that in considering what lands were to be transferred to Panama under the provisions of Public Law No. 48, the Secretary of War had designated the lots occupied as railroad terminal facilities in Panama City as necessary for railroad business. (In seeking the authority of the Congress for the transfer of the railroad property, as provided for in Public Law No. 48, it was clearly shown in the documents and maps that the lots covered by the railroad station, yards, and appurtenances were to be retained by this Government.) He pointed out that in view of these circumstances there is no authority under the terms of Public Law No. 48 for the transfer of the railroad station lots. Mr. Bonsal then stated that it was his definite opinion that should the Secretary of War find that these lots were unnecessary for railroad purposes (in the event that a new site were made available by the Panamanian Government and deemed by both Governments to be suitable) the Executive Branch of this Government would necessarily have to seek Congressional approval for their free transfer to Panama.

Mr. Bonsal took this occasion to point out to Ambassador Jiménez that neither this Government nor the Government of Panama could justifiably contemplate at this time the disruption of railroad traffic and freight handling or the diversion of critical materials needed for the war effort to the construction of a new railroad station and facilities. Mr. Bonsal informed the Ambassador of his opinion that this Government would wish to consider the moving of the railroad station as a part of a general program of civic improvement which would affect property owners other than the Railroad Company. In making these statements Mr. Bonsal left the definite impression that under no circumstances could this Government consider the moving of the railroad station to a new site during the present emergency and that it was his opinion that the whole question of the removal of the station and the disposition of the land occupied by it was not a matter for further current negotiation.

Comment:

Upon the Ambassador's withdrawal, Mr. Bonsal stated that it was his own personal opinion that the policy of this Government, as indicated by the enactment of Public Law No. 48, would seem to be to transfer to the Republic of Panama without charge real estate in the cities of Panamá and Colón, now occupied by the Panama Railroad or by other agencies of this Government, which may at some future time be found no longer necessary for the operation of the railroad or for

the operation, maintenance, sanitation, or protection of the Canal. However, in accordance with the terms of Public Law No. 48, he believed new Congressional authority would be required for each such transfer.

711F.1914/738

Memorandum by Mr. Murray M. Wise of the Division of the American Republics ⁴⁶

[WASHINGTON,] September 3, 1943.

In accordance with instructions from the Department,⁴⁷ Ambassador Wilson has clearly stated to the Panamanian Foreign Minister this Government's position with respect to a change in the site of the Panama railroad station and yards. Dr. Fábrega says he cannot see why these particular lots should not be included in the deed of conveyance now under preparation. He explained that his government was not especially interested in seeing the station moved at this time but that it was feared that unless the station lots were included in the present deed, the whole question of their transfer at some future time would have to be taken up with our Congress. Amb. Wilson said his instructions definitely disposed of that point by emphatically stating that any transfer of these lands would require Congressional approval.

The Minister said he would report our position to the President. Speaking laughingly he said the Panamanians were obstinate negotiators and probably would insist on their point of view. The Ambassador said he was aware of Panamanian obstinacy but hoped that the Minister would advise the President that the U.S. Gov't had spoken definitively.

711F.1914/740 : Airgram

The Secretary of State to the Ambassador in Panama (Wilson)

WASHINGTON, September 11, 1943—4:30 p. m.

A-1527. Reference your despatch no. 4570 of September 1, 1943.⁴⁸ The Department's note of May 18, 1942, to the Panamanian Government stated that in transferring the water works and sewerage systems it was to be understood that there would be "no refund to Panama

⁴⁶ Addressed to Paul C. Daniels of the Division of the American Republics, and to the Chief of that Division (Bonsal).

⁴⁷ Instruction No. 2702, August 4, p. 662.

⁴⁸ Not printed.

of amortization and interest payments or charges of any kind based on the Convention of 1903 and on the Contracts of September 30, 1910." (Underlining supplied)

The Department believes that the underlined phraseology has only one legal interpretation; namely, that this Government is in no way committed to return to Panama the surplus water rates collected and now being held by The Panama Canal. Furthermore, the Department agrees with Governor Edgerton that The Panama Canal will need statutory authority to expend the surplus funds on repairs or necessary extensions of the water and sewerage systems in the cities of Panamá and Colón. Accordingly, the Department believes that the Panamanian contention, as set forth in the memorandum forwarded with the despatch referred to above, should not be accepted, but that you and Governor Edgerton should definitely maintain the position which you have already taken before the Panamanian authorities.

In connection with other points raised by Dr. Fábrega in the memorandum, the Department is interested in knowing whether a draft management contract has been prepared (your telegram 411 of August 3) and whether it is contemplated that the management contract will be signed simultaneously with the signing of the instrument of transfer.

HULL

711F.1914/744

*Memorandum by Mr. Murray M. Wise of the Division of the American Republics*⁴⁹

[WASHINGTON,] September 23, 1943.

Ambassador Wilson and Governor Edgerton have conferred further with the Panamanian Foreign Minister concerning the draft instrument designed to transfer the water and sewerage systems. Dr. Fábrega insists that his Government cannot understand our view regarding the "surplus" funds and that a formal note will be sent the State Department through the Panamanian Embassy at Washington setting forth the Panamanian point of view. Ambassador Wilson assured him that the United States Government would maintain its position.

Governor Edgerton told Dr. Fábrega that there was no question in his mind that the spirit and intent of the exchange of notes of May 18, 1942 and of Public Law 48 provided for the transfer to Panama of the New Cristóbal systems, but that, as a practical matter, he felt it

⁴⁹ Addressed to the Chief and the Assistant Chief of the Division of the American Republics.

would be much better, particularly since it would be difficult for him to expend United States Government funds on the New Cristóbal systems once they had passed out of ownership of the United States, if such ownership could, in fact, be retained provisionally by the United States. Dr. Fábrega said this had been carefully considered by the Panamanian Cabinet which had decided that the New Cristóbal systems should pass to Panama as intended by both Governments. Ambassador Wilson pointed out that he could find nothing in the Panamanian Constitution which would oblige the Panamanian Government to limit an operation contract to a period of twenty years.

Governor Edgerton feels that the Panamanian figures relative to a 7½ cent instead of a 9 cent water rate, are not convincing.

A further meeting with the Foreign Minister is contemplated and in the meantime Governor Edgerton is preparing an informal memorandum setting out in detail for the Panamanian Cabinet our points of view.⁵⁰

711F.1914/752

Memorandum by Mr. Murray M. Wise of the Division of the American Republics ⁵¹

[WASHINGTON,] October 19, 1943.

RELOCATION OF RAILROAD STATION IN PANAMA CITY

I had a talk with Governor Edgerton this afternoon regarding the above subject. He stated that of course the Railroad could not consider moving the station during the emergency, but added that if he were properly approached by the Panamanians he would be glad to proceed with a survey of the proposed site. He said the cost of the survey will run into several thousand dollars, a sum which the Railroad Company will pay if it is finally decided that this is not a cost which can justifiably be charged to the Panamanians. He said that he would resent very much a request asking for a survey of the site at our expense, since he prefers offering to pay the cost only after he has asked the Panamanians to do so and has been told that they desire to avoid this expenditure. In other words, he wants the Panamanians to feel that our paying this cost is not an obligation, but rather wants it to be considered as another definite gesture or concession on the part of this Government. This puts the Governor in a better light and may better his bargaining position on some other phase of this negotiation.

⁵⁰ The negotiation for the transfer of the water and sewer systems was not concluded until December 28, 1945.

⁵¹ Addressed to the Chief and the Assistant Chief of the Division of the American Republics.

The Governor states that he believes that the site being offered by the Panamanians is a good one and is acceptable when considered in relation to the Trans-Isthmian Highway, the Inter-American Highway and the international airlines. He believes that if the survey turns out as he believes it will, we can say to the Panamanians that the site will be acceptable if properly prepared (improved) by the Panamanians at their expense. This preparation will include filling, grading, building proper approaches (streets), and installing water and sewer facilities. The Governor further believes that negotiations can then be entered into for the purpose of determining the conditions which will control the transfer when it is made after the war. These details, among others, will include disposition of the land now occupied and the sale of the buildings on the present site.

I believe the foregoing is more or less what Mr. Duggan had in mind. The Governor believes that if we are approached again by the Panamanians we should state that these decisions rest principally with the Canal Zone authorities and that they should be approached through our Embassy at Panama. In other words the Governor feels that the "ball" is down there. The Governor expects Dr. Fábrega to get in touch with him again after he has discussed the matter fully with the Panamanian Minister of Finance.

AGREEMENT BETWEEN THE UNITED STATES AND PANAMA PROVIDING FOR A HEALTH AND SANITATION PROGRAM, EFFECTED BY EXCHANGE OF NOTES SIGNED DECEMBER 31, 1942, AND MARCH 2, 1943

[For text of agreement, signed at Panama, see Department of State Executive Agreement Series No. 428, or 58 Stat. (pt. 2) 1451.]

PARAGUAY

DISCUSSIONS BETWEEN THE UNITED STATES AND PARAGUAY CONCERNING DEFENSE PROBLEMS

800.20234/33

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 669

ASUNCIÓN, January 2, 1943.

[Received January 7.]

SIR: I have the honor to transmit herewith a memorandum¹ prepared by Mr. Frank G. Siscoe, the Legal Attaché of this Embassy, respecting Axis organizations in Paraguay, from which it appears that the Paraguayan Ministry of the Interior proposes to place an interventor in each German and Italian association or similar entity in Asunción.

The salary of 10,000 Paraguayan pesos per month which each association will be forced to pay to the interventor, while it may seem small, is quite likely to result in the dissolution of a number of the organizations listed, as they are now financially in poor shape. In any event the new measure is calculated to be most helpful.

The Legal Attaché and Third Secretary George D. Henderson who have been in constant contact with Señor Mario Ferrario,² are to be congratulated on this development. (The arrival of Lend-Lease material here, the development of the Department's various projects for economic, sanitary and agricultural aid, and the military and naval successes of the forces of the United Nations in the several theaters of war are, moreover, combining to change the atmosphere for the better in Paraguay.)

Respectfully yours,

WESLEY FROST

834.24/329

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 679

ASUNCIÓN, January 6, 1943.

SIR: I have the honor to report that on the whole the local reaction to the delivery of the first two Lend-Lease shipments³ of arms and

¹ Dated December 31, 1942, not printed.

² Chief of the Division of Confidential Affairs, Paraguayan Ministry of Interior.

³ For correspondence regarding the Lend-Lease Agreement between the United States and Paraguay, signed September 20, 1941, see *Foreign Relations*, 1941, vol. VII, pp. 473 ff.

equipment to the Paraguayan armed forces has been favorable. Combined with American success in North Africa and Allied military victories on other fronts, the arms shipments have probably constituted a prime factor in an increasingly noticeable shift of opinion in military circles in favor of the United States.

With the exception of a very few officers, military circles under the Morinigo ⁴ regime have not been friendly to the United States, and the powerful cavalry division stationed near the capital has been at times actively, and always passively, hostile. It was therefore in these circles that disappointment may have lurked at the failure of delivering the Lend-Lease arms promised to Paraguay. This delay was pointed to as evidence of the various faults attributed to the United States, and therefore served to keep alive pro-Axis and anti-American sentiments.

Because there were many army and navy officers (in active service) who were convinced that arms were unlikely to arrive from the United States, the actual delivery of the first two shipments had a strong effect. Searching for some means of softening this certain persons began saying, after the news of the contents of the first shipment became known—that the sending of trucks instead of guns revealed the duplicity of the United States. As reported in my despatch No. 618, of December 15, 1942,⁵ the Argentine Embassy here was alleged to have encouraged the circulation of a rumor to the above effect.

Nevertheless, after the impact of the news of the first shipment, opinion in official and private circles began to reflect satisfaction over the fact itself. When the second shipment was delivered a few weeks later, a definite change in opinion toward the United States materialized in military circles. Even the Cavalry Division Chief began to bestow social and other attentions on this Embassy. Finally, about a week ago, a prominent naval officer (noted for his aversion to definite statements of fact or opinion, especially on international and political matters) made a clear-cut, emphatic statement to Third Secretary Henderson. Its substance was that this naval officer, who declared that he could speak for the leaders of the armed forces, stated that the arrival of two shipments of Lend-Lease material spoke louder than any words or promises, and removed the last vestige of doubt as to our sincerity; that the armed forces were genuinely impressed and even contrite over their former suspicions; that these shipments had done more than anything else to bolster friendship for us; and that he was frankly amazed that the United States had “come through

⁴ President Higinio Morínigo.

⁵ Not printed.

with the goods" in spite of Paraguay's virtual failure to fulfill its obligations of *quid pro quo*.⁶

Events on world battlefronts have naturally contributed much toward creating a propitious setting for the apparent change in sentiment outlined above. American victories in North Africa and the Pacific, as well as military successes of other United Nations, have finally made Paraguayan Nazi sympathizers realize that the Axis' winning streak has come to an end, and that the United States in particular has now brought into effective play its tremendous potential might. Hitler's star has consequently fallen measurably, especially among the military.

The sudden show of cordiality toward the United States may also reflect the intense fear and hatred Paraguayans feel for Communism, and which may impel them to magnify the role of the United States in the war in an attempt to overlook Russian victories.

Respectfully yours,

WESLEY FROST

834.51/446 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, February 19, 1943—6 p. m.

[Received February 20—2:15 a.m.]

85. For Under Secretary. President sent for me this morning to sound out possibility of loan or aid to build hangars for planes and storehouses for other Lend-Lease material, estimating cost at \$185,000, and stressing that inquiry was personal and tentative. I ventured suggestion that such a request might make poor impression at Washington in view of very special Lend-Lease terms⁷ for this country and in view of fact that economies of 3% in regular Paraguayan budget would yield sum indicated. President said half heartedly that doubtless I was right. Interview was cordial.

FROST

711.34/34

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 838

ASUNCIÓN, March 3, 1943.

[Received March 12.]

SIR: I have the honor to refer to my despatch No. 797 of February 17, 1943 (File No. 800), which enclosed a communication denouncing

⁶ Paraguay's obligations under the Lend-Lease Agreement were to repay a percentage of the value of the lend-lease goods at the rate of \$50,000 annually, to negotiate equitable commodity agreements with the United States, not to transfer title to defense articles, and to protect patent rights in the defense articles of American citizens.

⁷ Presumably this refers to the articles under which Paraguay was obligated to repay \$300,000 of the \$11,000,000 authorized for defense articles for Paraguay.

American cooperation with the Morínigo Government and indicating that no return cooperation has been secured.⁸ In this connection it may be reported that certain American and other friends of democracy residing in Asunción and cities in neighboring countries are known to feel that the Morínigo régime has not adopted measures or attitudes which justify the aid it has received. As the Department is aware the majority of the educated Paraguayans who favor the Allied cause, both in Asunción and Buenos Aires, are hostile to President Morínigo; so that Americans resident in both cities find themselves in contact with criticism of the present Government of this country as being essentially uncooperative and anti-democratic. The Department will also recall that some three months ago, in Despatch No. 597, of December 9, 1942,⁹ there was treated the absence of helpfulness in official quarters here on local matters relating to the war effort.

At the present time, fortunately, it may be said that recent favorable actions have shown that previous such actions were in reality parts of a considered policy of cooperation which is now plainly in full development. In despatch No. 810, of February 20, 1943,⁹ a succinct list was supplied of twenty helpful steps taken by the Morínigo Government, under the guidance of Dr. Argaña,¹⁰ beginning last September. Since the despatch was prepared this Government has (1) issued a most cordial invitation to Vice President Wallace to pay an official visit to Asunción,¹¹ has (2) improved the editorial friendliness of its newspaper, *El Paraguayo*, has (3) facilitated the instituting of our decentralized American-export control in Paraguay,¹² and has (4) issued a nation-wide order to its authorities to tighten the control and vigilance of nationals and agents of the Axis powers. While any mercantile calculation as to exactly the amount of "aid" given on the one hand and "cooperation" returned on the other would be invidious and ridiculous, it may assuredly be said that the Morínigo-Argaña régime has now afforded much collaboration.

I am impelled, further, to mention this Embassy's increasing comprehension of, and admiration for, the courage shown by Paraguay's rupture of relations with the Axis.¹³ The difficulties which the régime

⁸ Neither printed; the enclosed communication was anonymous. It expressed the resentment of opponents of Morínigo that the aid given by the United States to his Government strengthened the dictatorship (711.34/32).

⁹ Not printed.

¹⁰ Luis A. Argaña, Paraguayan Minister for Foreign Affairs.

¹¹ For correspondence on the visit of Vice President Wallace to certain American Republics, see vol. v, pp. 55 ff.

¹² For correspondence on export controls, see *ibid.*, pp. 267 ff.

¹³ Paraguay severed diplomatic relations with the Axis on January 28, 1942. For correspondence on the reactions in the other American Republics to the declaration of war between the United States and the Axis, see *Foreign Relations*, 1941, vol. vi, pp. 55 ff.

faced in forming and putting through this decision have become more apparent as our knowledge of the situation has grown. (a) Our sustained and detailed investigations and attempts at action in connection with the Proclaimed List have revealed the strength and ramifications of the German and Italian economic elements here. It cannot be too strongly emphasized that a majority of the commerce and industries have been in German and Italian hands, in this capital city of Paraguay. The international public is familiar with the existence of large German groups in the south of Chile and the south of Brazil, but these groups are not actually omnipresent *in the capitals* of the countries in question. The percentage of Germans and Italians and Paraguayans of German and Italian blood in and around Asunción is, I firmly believe, much higher than in any South American center of government. (b) In the second place the influence of Argentina is phenomenally strong in Paraguay. As pointed out recently, no country in the hemisphere has been so completely at the mercy of any other country as Paraguay at that of Argentina. Every step taken by Dr. Argaña in international affairs must be appraised in the light of the Argentine influences here. When critics dismiss Paraguay's anti-Axis stand as meriting scant appreciation they ignore the ubiquitous German-Italian strength here and the crushing pressure from Argentina. Perhaps no one of the nineteen republics needed the fortitude and resolution which this republic did in taking the step.

[Here follows a discussion of the Paraguayan internal situation.]

I also wish to make the point that General Morínigo's decision, adopted with great firmness a few weeks prior to the Río Conference, and the subsequent pro-Ally steps taken by his Government have been largely due to the influence of Dr. Argaña. I was told again this week, as coming from the head of an English firm whose lawyer Dr. Argaña has been for many years, the same story which Dr. Argaña himself told me twenty months ago, namely that his attitude with regard to the war is based on his religious convictions. Certain of the Nazi doctrines and acts profoundly shocked his devout views, and his faith in Divine Providence led him to the conclusion that it would not permit the triumph of the barbarous and anti-Christian Nazi forces. I believe this is in very truth his attitude; and I question whether any Foreign Minister named by a Liberal or other *soi-disant* pro-democratic government would have a stronger or more ineradicable determination to further the victory of the United Nations than that with which he is imbued.

Respectfully yours,

WESLEY FROST

811.20234/17 : Airgram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, March 18, 1943—7:10 p. m.

A-171. Your despatch no. 799, February 18.¹⁵ Department has considered carefully the matter of supplying publicity in the German language in Paraguay, realizing that the presence of large numbers of German-speaking families in the Encarnación and Villarrica regions presents a special circumstance.

Similar problems regarding publicity for foreign-language groups have arisen in various other American republics. However, the Department has opposed the distribution of material under United States Government auspices in languages other than English or that of the republic concerned. For one reason, it is desired to avoid any suggestion of a United States Government appeal to racial or linguistic groups within a republic over the head of the national government involved. This general policy has been preserved even in cases such as that reported by the Embassy, where the government involved seems to have no objection.

The Department would have no objection, however, to supplying a pro-democratic German-language publication with copies of our regular publicity material for its translation and use, should such a paper be authorized and established in Paraguay.

HULL

701.6234/52 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, March 23, 1943—4 p. m.

[Received March 24—2:24 a. m.]

141. After conversations between son of landlord of the German Legation property and Assistant Naval Attaché¹⁶ regarding rumors of clandestine radio transmitter and other activities in German Legation, in course of which both individuals expressed desire to enter and verify activities, the former, a Paraguayan citizen, asked a high ranking official of the Ministry of Interior¹⁷ to request that Spanish Legation admit the United States Legal Attaché,¹⁸ the United States Assistant Naval Attaché and the Ministry of the Interior official to the premises. As Legation is under protection of Spain and as

¹⁵ Not printed.¹⁶ Lt. Joseph P. Morray.¹⁷ Mario Ferrario, Chief of the Division of Confidential Affairs.¹⁸ Frank G. Siscoe.

Spanish Minister ¹⁹ was absent the elderly merchant Vice Consul ²⁰ temporarily in charge of affairs of Legation was told directly that he [was?] to accompany and open edifice for party. He did not feel like protesting and accordingly complied. Parenthetically nothing suspicious was found except few copies German-Argentine propaganda "hechos."

Above action was taken without consulting Naval Attaché ²¹ or while Ministry of the Interior official did not consult his Minister, or Foreign Office. Case was clearly one of zeal by all the young men concerned none of whom has any considerable experience abroad. As entry seemed to constitute grave infraction of rights of Spain as protecting power and might be used by Germany to justify reprisals in kind, I called on Spanish Vice Consul following morning to inform him that my subordinates had acted without my knowledge or authorization and to suggest matter be kept confidential pending Spanish Minister's return. He had already telegraphed Minister but otherwise refrained from complaint.

Minister returned March 20 and met me at social function. He took matter up at once and I reiterated my regrets. His attitude was correct and he professed desires to avoid likelihood of major incident but he felt that his position necessitated some action. At his suggestion I called upon him Monday morning and found he had already visited Foreign Minister to lodge protest and had drafted cable to Madrid. On ground of newspapers avoiding unpleasantness Paraguayan Government, I induced him not to prepare the formal note to Foreign Office which Foreign Minister had suggested. He also undertook to endeavor if possible to see that incident should not come to attention of Berlin. He stated his telegram to his Government was merely to recite facts and would suggest no drastic steps be taken. Considering danger to his own standing, his attitude has seemed definitely helpful and cooperative.

There is reasonable prospect that difficulties will be avoided but present report is to place Department *au courant* against contingencies. Our defense if necessary could be that Paraguayan Government is responsible for its acts and I may mention that Foreign Minister indicated to Spanish Minister that Spanish Vice Consul should have protested before opening edifice.

Department's comments and guidance by telegram would be much appreciated.

FROST

¹⁹ Teodomiro de Aguilar y Salas.

²⁰ Enrique Prous.

²¹ Comdr. Peyton H. Park.

701.6234/52 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, March 27, 1943—noon.

125. Your 141, March 23, 4 p. m. You are instructed to inform Dr. Argaña and the Spanish Minister orally that the Legal Attaché and the Assistant Naval Attaché have been reprimanded for acting improperly and without authorization. You should express the hope to Dr. Argaña that he will attempt to persuade the Spanish Government to consider the matter closed. You should also express the same hope to your Spanish colleague. Please report immediately if, to your knowledge, the Spanish Government has communicated this incident to Berlin.

Appropriate reprimands should without delay be made in writing to both of the Attachés concerned, stressing the fact that they acted improperly and without authorization.

The text of the reprimands together with a full and formal report of the incident should be submitted to the Department by telegram.²² Upon receipt of this information, the Department will be in a better position to reply to any representations that may be made by the Spanish Government.

The Attachés concerned should submit to you for transmission by air mail separate signed reports, giving full details of their actions.

The United States Government has consistently observed the inviolability of the seal of the neutral protecting power attached to the diplomatic and consular premises or properties of nations with which it is at war. The violation of such seals is in no way countenanced by this Government.

HULL

834.911/47

The Chargé in Paraguay (Montgomery) to the Secretary of State

No. 1153-A

ASUNCIÓN, July 8, 1943.

SIR: I have the honor to request the Department's advice as to the procedure the Proclaimed List section of the Embassy should follow and the attitude it should adopt toward the local press in view of its acceptance of advertisements for Proclaimed List firms.

The Department is aware of the fact that some time ago the local press was at best neutral in its policy toward the Axis but that there has been a decided change in its outlook, particularly during the last

²² These documents were transmitted to the Department by the Ambassador in Paraguay in his despatch No. 923, April 3, 1943, not printed.

year. The Embassy's efforts in this direction have been eminently successful; although at times more positive cooperation could be asked for the situation on the whole is gratifying. (See Embassy Strictly Confidential Despatch 1160 of July 8, 1943,²³ "Report on the Daily Press in Asunción. Marked Change in the Attitude of *El Paraguayo* Recently", in connection with the editorial policy of the local press).

With the exception of one, *El Pais*, all of the local newspapers, however, have consistently carried advertisements for Proclaimed List firms. The Proclaimed List section of the Embassy has not taken any steps to discourage or prevent the local newspapers from accepting such advertisements. The Embassy's attitude has been adhered to partly because of the difficult local political situation, partly because there has been the belief that the local newspapers, never financially strong, could not survive the loss of income from those advertisements, and also because it has been felt that any attempt to induce individual newspapers to refuse to accept such advertising would adversely affect the favorable publicity they now give us.

It must be admitted, too, that many of the leading advertisers in the local newspapers, despite the fact that they are included in the Proclaimed List, are among the most important firms in the country, are locally considered as purely Paraguayan, and can hardly be replaced by existing local companies. It is the opinion of the Embassy that inclusion in the Proclaimed List has very definitely diminished their income but has not substantially harmed their leading position, much less started them on the road to financial collapse.

During the past two weeks Ferretería Universal S. A., included in the Proclaimed List since its publication, has occupied its newly completed quarters. Its retail showrooms are without doubt the most modern and luxurious in Asunción. From the stock on display it is apparent that the company has been able to maintain its sources of supply despite our best efforts to cut them off. Each of the four daily newspapers, including the official organ of the National Department of Press and Propaganda, *El Paraguayo*, carried large ads publicizing the occupation of the new quarters. It was rather disappointing, however, when *El Paraguayo*, the official organ of the National Department of Press and Propaganda, gave the company more than a full page write-up on its new quarters. A copy of that issue of the newspaper is enclosed herewith. (See Page 2 of *El Paraguayo* of June 27, 1943). The Department's attention is particularly invited to marked portions of the article. The Embassy submits this article in *El Paraguayo* as the most outstanding and admittedly the most extreme example of the fact that the local press not only ignores the Proclaimed List—it must be kept in mind that the Paraguayan Gov-

²³ Not printed.

ernment has not recognized the Proclaimed List—but also is willing to give its active support to local business houses despite the fact that they may be included in that list.

There are several other aspects to the local situation. In most countries the Embassy believes that it has been possible to convince local newspapers that it would be in their best interests not to carry the advertisements of Proclaimed List firms by letting them understand that if such advertisements were carried it might be that American firms or advertisements of American products would not be offered them. Unfortunately this argument would not be effective in Paraguay inasmuch as only one American firm, the International Products Corporation, and four English firms, (Liebig's Extract of Meat Co., Ltd., Ferrocarril Central del Paraguay, Banco de Londres y América del Sud, and Haywood Hermanos) operate in Paraguay. These firms do not carry the amount of advertising that is carried by the Proclaimed List advertisers here. The Embassy is reluctant to bring up the question of restriction of newsprint and other supplies for the local press inasmuch as this could too easily be used by individual newspapers as an indication that the American Embassy might be attempting to interfere with the freedom of the press. Actually, the press is under rigid control of the National Department of Press and Propaganda and everything published locally must have the approval of that department. It would be possible to discuss the situation with the National Department of Press and Propaganda but the Embassy cannot help but feel that inasmuch as the Paraguayan Government has not recognized the Proclaimed List, Press and Propaganda could hardly undertake the suppression of Proclaimed List advertisements. It is doubtful that it would be advisable even to suggest to Press and Propaganda that the continuation of these ads might have an effect on the availability of newsprint from the United States: that department could easily take the stand that cutting off supplies for such activities was in effect an attempt to control the press, or alternatively could easily act as importer for those newspapers which the Embassy might decide to be undesirable.

It is the feeling of the Commercial Section of the Embassy that steps should be taken to prevail upon the local press to revise its attitude and cooperate with us on Proclaimed List matters, but before embarking upon such a policy it is requested that the Department consider the matter and express its opinion.

There is to be considered also the extent to which a strong stand on this matter might affect our at present cordial relations with all Paraguayan newspapers, whom we are gradually but surely converting into extremely helpful pro-Ally media the nature of whose support at

present considerably offsets the adverse effect of Proclaimed List advertising.

It is hoped that an early reply to this despatch will be received.

Respectfully yours,

EDMUND B. MONTGOMERY

834.911/47

The Secretary of State to the Ambassador in Paraguay (Frost)

No. 975

WASHINGTON, August 18, 1943.

The Secretary of State refers to the Embassy's despatch no. 1153-A of July 8, 1943 requesting the Department's advice as to the procedure the Proclaimed List Section of the Embassy should follow and the attitude it should adopt toward the local press in view of its acceptance of advertisements for Proclaimed List firms.

The Department believes that although it is clearly desirable to gain the cooperation of the press in Proclaimed List matters, no steps to achieve that end should be taken which might jeopardize the success that the Embassy has had in improving the attitude of the press toward the United Nations or which might produce unfavorable political repercussions. For whatever use the Embassy may wish to make of it and not as a suggestion that it be employed as a model in dealing with the problem, there is enclosed herewith a copy of a memorandum of July 17, 1943 to an officer in the Department from the British Embassy at Washington,²⁴ describing the action taken by the American and British Embassies in Santiago with regard to acceptance of Proclaimed List advertisements by local newspapers. The Department realizes that the financial considerations described in the despatch under reference probably would make it impossible for newspapers in Asunción to follow the course adopted by the Santiago press even if they were disposed to do so. However, it would seem that the newspapers should not resent a frank approach whereby they were informed of the Embassy's awareness of the financial considerations involved but that the Embassy cannot sanction active support of Proclaimed List enterprises. The distinction is clearly illustrated by the full-page article in the July 27 issue of *El Paraguay*, describing the new quarters of Ferreteria Aleman; that is free advertising, cannot be justified on the basis discussed herein, and therefore should be a proper subject for an approach by the Embassy.

The Officer in Charge is requested to report from time to time any developments in this matter and particularly the reaction of a newspaper to an approach such as that suggested for *El Paraguay*.

²⁴ Not printed.

800.20210/1619

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 1286

ASUNCIÓN, August 28, 1943.

[Received September 4.]

SIR: I have the honor to refer to the Department's circular airgram of June 21, (1943) 11:30 a. m.²⁵ requesting that the Department be informed of *specific* cases in which Axis business institutions have directly or indirectly engaged in or financed espionage, sabotage, propaganda and related activities.

There is transmitted herewith a memorandum²⁵ prepared by the Acting Legal Attaché of this Embassy²⁶ on July 27, 1943, which was designed to respond to the Department's request. The memorandum has not been forwarded earlier because of the impending arrival of Mr. Raymond W. Ickes of the Alien Enemy Control Unit of the Department of Justice. It was also anticipated that Legal Attaché Frank G. Siscoe would return from Washington; and that possibly some specific cases could be discovered which would be more responsive to the Department's requisites.

The memorandum does show, however, that the black listed firms here are furnishing a large part of the financial support of the Asociación Alemana de Ayuda Social, the parent organization of most German activities here. There is as yet nothing feasible to show that the German bodies thus supported are engaged in espionage, sabotage or propaganda, and indeed it is the impossibility of demonstrating this which has been the principal factor against inducing the Paraguayan Government to take definite steps against the Germans in Paraguay.

Respectfully yours,

WESLEY FROST

862.20234/148

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 1405

ASUNCIÓN, October 12, 1943.

[Received October 21.]

SIR: Referring to my despatch No. 1337 of September 21, 1943, I have the honor to transmit herewith a memorandum dated October 11,²⁷ prepared by the Legal Attaché of this Embassy, Mr. Frank G. Siscoe, with regard to the present progress of our efforts to secure the dissolution of the Deutscher Volksbund (Union Germánica del Paraguay) and the Asociación Alemana de Ayuda Social.

²⁵ Not printed.²⁶ Charles E. Apple.²⁷ Neither printed.

The Department will note that the Paraguayan National Consultative Committee for Political Defense seems to have arranged to suspend in the immediate future the existence of the Volksbund, but only for the duration of the war. I have some hope of eliminating this latter provision through the influence of Foreign Minister Argaña.²⁸ As to the Asociación Alemana de Ayuda Social the Committee proposes to collect further data before taking action, but to exercise a strait [*strict?*] surveillance beginning at once.

In the meanwhile it will be observed from my despatch No. 1386 of October 8, 1943, and from my despatch No. 1328 of September 17, 1943,²⁹ that the Paraguayan Government has taken positive and most helpful action in placing both the German Bank and the Japanese Colony in Paraguay under rigid control. It has also been fairly cooperative with regard to the functioning in Paraguay of the two censors sent here from the United States, Mr. Bealer and Lieutenant Ripley. (It has not furnished the special funds which would be necessary to enable Mr. Bealer to function permanently, but this is due to its perhaps justifiable belief that his presence if permanent would become generally known and thus drive dangerous correspondence out of the mails.)

The matter of requesting that a selected number of German organizers be sent to the United States for detention, or be detained in a concentration camp in Paraguay, is awaiting the Department's reply to my despatch cited in the first paragraph above. It is also awaiting the general development of the situation with regard to the German Bank and the Asociación Alemana de Ayuda Social. Quite clearly, however, the Paraguayan Government is showing a much fuller spirit of cooperation on the general problem of curbing subversive and dangerous activities.

Respectfully yours,

WESLEY FROST

834.7962/60 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, October 28, 1943—11 a. m.

[Received 11:21 p. m.]

585. Airport negotiations here were based on formal written application to Paraguayan Government requesting permission to construct north-south and east-west runways. Paraguayan decree accepted this proposal. The difficulties with the fields related to land for east-west runway and at my personal request President Morinigo

²⁸ The closing of the Union Germánica, until a new provision concerning it might be made, was announced on October 20 by a resolution of the Paraguayan Ministry of Interior and Justice.

²⁹ Neither printed.

compelled release of this land based on plan officially sent here by ADP³⁰ and shown him by me. USED³¹ at Recife however have issued directive abandoning construction east-west runway although cost is slight and our undertakings are most definite and were reached after Paraguayan Government resorted to strong measures expressly on behalf of that runway. I have the honor earnestly to request that Department contact appropriate army authorities to secure fulfillment undertakings.

FROST

834.7962/63

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 1556

ASUNCIÓN, November 22, 1943.

[Received December 1.]

SIR: Referring to my confidential telegram No. 585 of October 28, 11 a. m., with reference to the East-West runway of the Asunción airport now under construction, I have the honor to report that I received a visit on the 19th instant from Mr. John Dwyer, Airport Development Program representative, acting as general superintendent of the current construction work on the airport here. I understood that Mr. Dwyer was acting under instructions from his superiors at Miami. He referred to the terms of the Paraguayan Decree-Law No. 13,365 of July 2, 1942, "Which grants to Pan American Airways, Inc. the use of the Government property located at Campo Grande, etc.;" and particularly to the second Article of that Decree Law which reads as follows:

"Art. 2nd. Pan American Airways, Inc. shall be obligated to erect on the said property, in addition to the constructions already installed by it, those necessary for converting the said field into a modern airport, capable of handling the traffic of modern and heavy commercial aircraft, even during the rainy season, and likewise for night traffic. These constructions will consist principally of the following: Leveling and drainage of the land; construction of hard surface runways in the direction of the two predominating winds; storage installations and facilities for refueling; illumination of the field, so as to permit of night landing, and the construction and improvement of the buildings according to the requirements of the air traffic, such as the passenger station, radio-communication building, storage facilities, shops, etc., when and as the increased volume of the services require."

In the first place, with reference to the provision that hard surface runways be constructed "in the direction of the two predominating winds," Mr. Dwyer advanced the contention that these two winds are

³⁰ Airport Development Program.

³¹ United States Engineers Department.

both almost north and south, corresponding roughly with the direction of the main runway now under construction, so that the transverse runway as shown in the plans on which the negotiations with the Paraguayan Government were based need not be constructed under the terms of the paragraph above cited. The plans which figured throughout the negotiations with the Paraguayan Government over a period of almost a year were prepared by the Airport Development Program, the final blue-print having been certified by it under date of May 1, 1942. They included a "wind flower" indicating (1) a north-south wind with a spread of approximately 22° and (2) a second predominating wind running from west-northwest and to east-southeast, about 80° removed from the north-south wind, also having a spread of 15° to 20° .

It was on this second predominating wind that the necessity for the transverse runway, which ADP was then anxious to secure, was based in the negotiations. The frequency of this wind is much less than that of the north-south wind in a ratio of approximately 1 to 5; but it was explained to the Paraguayan Government by the Airport Program engineers and the Pan American Airways representative here that modern air traffic would necessitate the transverse runway in order to prevent the paralysis of the airport during one-sixth of the year. This explanation was also made by myself and the Military Attaché, at the request of the ADP representatives, to the President of Paraguay and to the Minister of War and Chief of Staff.

There can be no question but that the construction of the east-west runway was authoritatively declared to be necessary by and on behalf of the representatives of the Airport Development Program and the Pan American Airways; and that the Decree-Law was issued by President Morínigo on the basis of these representations. The Paraguayan authorities suggested that the north-south runway be deflected, and that the east-west runway likewise be deflected, in order to obviate the necessity of condemning land pertaining to the Cavalry Unit contiguous to the airfield. If the ADP had not represented the transverse runway as necessary the difficulties which consequently supervened with the Cavalry, and which had international repercussions, would have been greatly attenuated; but the ADP, acting under instructions from Miami, took the attitude that the two runways must be built as shown in the plan certified May 1, 1942. It would appear that the present contention of the ADP representative here, Mr. Dwyer, is based upon new plans recently drawn up at Miami which instead of showing the prevailing north-south wind as a single wind with a spread of 22° show it as two winds 22° apart. (Obviously no two such "predominating" winds could exist so close together.)

As the Paraguayan Government will feel that its good faith has been abused if the two runways are not constructed in accordance with the plan and explanations presented to them, it may be suggested that the Department consult the ADP plan of May 1, 1942 and seek a technical explanation of the "wind flower" shown thereon. The question might be studied as to why the north-south wind should be represented as a single wind with a spread of 22° if in fact it consists of two winds 22° apart. The question also presents itself of why the "wind flower" showed a transverse wind predominating during 16 percent of the year, if such a wind did not exist.

In the second place, Mr. Dwyer, acting presumably under instructions, called attention to the last phrase of Article 2 above quoted, consisting of the words "when and as the increased volume of the services require." The Paraguayan Government and the Embassy understood, and still understand, that this phrase applies to the illumination of the field and the construction and improvement of buildings according to the requirements of the air traffic; but Mr. Dwyer advances the interpretation that it applies to all the construction work of the entire project. The Department may be interested in securing from its Legal Adviser a juridical interpretation of the language in question, or in otherwise reaching a view with regard to the extent of the applicability of the phrase. It is the Embassy's understanding that the Airport Development Program now wishes to avoid constructing the transverse (east-west) runway on the ground that there has been no "increase in the volume of the service."

As indicated by my telegram No. 585 of October 28, 11 a. m., the failure by the Airport Development Program to effect the construction in accordance with the representations which it made, and which it requested myself and the Military Attaché to make, based on the plan which it submitted, would be interpreted by the Paraguayan Government as an attempt to evade obligations formally assumed. The matter has not yet been raised, either by the Embassy or the Airport Development Program, with the authorities here, in view of my hope that the Department may be able to effect an adjustment at Washington; but there is every reason to feel that an abandonment of the east-west runway, which cost the Government here great and protracted difficulties with the Armed Forces, would create an extremely adverse impression.

The airport question here was for two years universally regarded as the principal point on which Paraguay's cooperation with the United Nations turned. It was discussed not only throughout the various elements of the Government but also by the general public, and indeed by every man, woman and child in Paraguay. After the Government at length adopted a firm and resolute policy in accepting the proposals

of the Airport Development Program, and forced the Army to accept them, the airport became a principal symbol of Paraguay's determination to cooperate with the United States and the Allied nations. President Morínigo and his entire Cabinet officially assisted at the inauguration ceremonies last May and were again shown by the Airport Development Project representatives the plans, including the transverse runway. On the journey of the President, the Foreign Minister and the Finance Minister, with their suite, to the United States in June, and to eight Latin American republics in July, they visited modern airports at many places; and expressed to me and to other members of the Embassy staff their satisfaction that a modern and complete airport was to be constructed in Asunción,—feeling that the difficult decision which they had reached and enforced would be justified by the endowment of Asunción with such an airport. If the Airport Development Program, or the United States Engineering Department, should now do otherwise than comply with what are definitely regarded by Paraguay (and by the Embassy) as definite obligations, the political effect here would be most disadvantageous, and the results would hang over Paraguayan-American relations like a pall for a long time to come. Incidentally, Argentina would certainly capitalize the resulting situation.

Respectfully yours,

WESLEY FROST

834.7962/62 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, November 24, 1943—9 p. m.

475. The War Department informs that present plans call for grading and seeding the area near the intersection of the runways of the Asunción airport, but that it is not proposed to construct a paved or graded runway east and west. The War Department points out (1) that prevailing winds would not permit the use of the east-west runway more than fifteen percent of the time at most; (2) that runway arrangements as now planned will be entirely adequate for any use that can reasonably be foreseen; (3) that improvement of an east-west runway would add little, if any, practical use value to this airport; and (4) that such an additional expenditure would not be considered on a field in this country under corresponding conditions.

The Department is informed that the present plans call for using all of the land as originally laid out, including that part over which the difficulties arose. Thus the only difference between what is now provided for and what you request in your 585, October 28, 11 a. m.

and your 626, November 22, 6 p. m.³² appears to relate only to the type of surfacing. Since the use of the land and not the nature of the runway surface was presumably the issue involved in your discussions with President Morinigo, the Department feels that the present plans should be entirely satisfactory to the Paraguayan authorities, especially since they appear to meet in every respect the conditions of any undertaking on record in either the War or State Departments.

HULL

834.7962/62 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, December 1, 1943—7 p. m.

483. Under present plans, the Paraguayans will acquire an airport that for a long time to come will be entirely adequate to their needs. It will be a credit to the national capital and superior to airports in this country in most cities of approximately comparable size. To the Paraguayans who hold title and have the beneficial use of the airport and facilities, the cost will have been little or nothing at all, except for the land. To the United States Government, however, the cost according to present plans is estimated at over \$603,000. Under these conditions, the Department is satisfied, in spite of your 633, November 26, 5 p. m.,³³ that this Government has adequately discharged all reasonable obligations arising from the agreement to construct this airport.

The War Department has issued orders to USED, Recife, to send a competent officer to Asunción at the earliest possible date to discuss this whole matter with you and, if necessary, with the Paraguayan officials. For your information, the prospect of authorizing any additional expenditure on this airport is so remote as to be practically negligible and you should conduct future negotiations accordingly.

HULL

834.7962/64

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 1611

ASUNCIÓN, December 4, 1943.

[Received December 13.]

SIR: I have the honor to acknowledge the receipt of the Department's confidential telegraphic instruction No. 483 of December 1,

³² Latter not printed.

³³ Not printed.

7:00 p. m., with respect to the change of plans for the Asunción airport.

The Paraguayan Government has as yet not been informed that the construction of the east-west runway is no longer contemplated; and subject to the Department's instructions it would seem well that the matter be not brought to the attention of the authorities here at this juncture. At the time when the airport shall be completed there will be a possibility that the Government may not feel disposed to make an issue of the point. The circumstances may well be such in mid-February or early March, when the work is expected to end, that difficulties may be avoided.

In the meanwhile the very helpful observations which the Department has furnished will be borne in mind. The Paraguayan Government has thus far been disposed to accord frank recognition and appreciation of the innumerable advantages which it has received from our Government.

Respectfully yours,

WESLEY FROST

**AGREEMENTS BETWEEN THE UNITED STATES AND PARAGUAY FOR
SENDING A MILITARY AVIATION MISSION AND A MILITARY MIS-
SION TO PARAGUAY**

834.20/134: Airgram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, May 5, 1943—6:30 p. m.

A-222. Your despatch no. 948, April 13.³⁴ The Department has been informed by the War Department that it is inclined to give favorable consideration to a formal request from the Government of Paraguay for a United States Military Mission. However, it will be impossible to initiate definite steps toward our standard mission agreement, or to include any final contract concerning a United States Military Mission until after the termination of the services of every member of the present French Military Mission³⁵ and their departure from Paraguay.

The Department has also been informed by the War Department that it has not been their policy to furnish Military Missions without costs to any country³⁶ and suggests that the Paraguayan Government should pay members of the proposed Mission on the same scale as they pay their own officers of corresponding rank.

³⁴ Not printed.

³⁵ This Mission had given its allegiance to the Vichy French Government.

³⁶ In its note accepting the preliminary offer of a military mission from the United States, Paraguay indicated a basis of complete gratuity.

The War Department has stated that the Officer personnel of the Mission will be composed of Reserve Officers, or Officers of the Army, United States, or Officers of the Regular Army over age in grade or on limited service.

If you perceive no objections, please inform the appropriate officials of the Paraguayan Government of the terms under which the War Department would be disposed to consider favorably a formal request through diplomatic channels for a Military Mission.

HULL

834.248/68 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, July 10, 1943—9 p. m.

291. Your 347, June 21, 5 p. m.³⁷ While in Washington Ambassador Frost informed the Department that negotiations had been under way for some time between the Paraguayan Government and the Brazilian Embassy at Asunción concerning the possible sending of a Brazilian army aviation mission to Paraguay. Before considering the Paraguayan request for a United States mission, the Department desires a full telegraphic report from you as to the exact nature and present status of these negotiations.

HULL

834.20/138 : Telegram

The Ambassador in Paraguay (Frost) to the Secretary of State

ASUNCIÓN, August 11, 1943—6 p. m.

[Received 11:33 p. m.]

445. Referring airgram 222, May 5, 6:30 p. m., and plans regarding American military and aviation missions in Paraguay. It has been assumed by Paraguayan Government, as well as Military Attaché and myself, that Department's communication constituted acceptance of Paraguayan request for instruction mission to take effect as soon as services of Vichy French officers could be terminated. Accordingly, regular course of War College here was cut in half and was ended August 7. Paraguayan authorities have been endeavoring to arrange departure French officers but there are difficulties not soluble by Paraguay.

My conversations at Washington with Bonsal, Bacon, and Wilson³⁸

³⁷ Not printed.

³⁸ Philip W. Bonsal and J. Kenly Bacon, Chief and Assistant Chief, respectively, of the Division of the American Republics; Orme Wilson, Liaison Officer of the Department.

regarding aviation mission were based on understanding that instruction mission definitely is to be American. It is of paramount and basic importance and any withdrawal now would be regarded as of great gravity by Paraguayan Government.

FROST

834.20/138 : Telegram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, August 16, 1943—6 p. m.

346. Your 445, August 11. Before any action can be taken towards furnishing a Military Mission a formal request will have to be received from the Paraguayan Government. The Foreign Office note No. 301 of April 10 enclosed in your despatch no. 948 of April 13³⁹ does not of course constitute such a request.

Upon receipt of a formal request and an indication that all of the terms and conditions stipulated in the Department's airgram 222, May 5, including departure from Paraguay of the members of the French Mission, meet with the approval of the Paraguayan Government, the Department will recommend to the War Department that a Military Mission be assigned to Paraguay.

HULL

[For text of agreement providing for a Military Aviation Mission from the United States to Paraguay, signed at Washington October 27, 1943, see Department of State Executive Agreement Series No. 343, or 57 Stat. (pt. 2) 1100; for text of agreement providing for a Military Mission from the United States to Paraguay, signed at Washington December 10, 1943, see Department of State Executive Agreement Series No. 354, or 57 Stat. (pt. 2) 1184.]

DISCUSSION CONCERNING ECONOMIC ASSISTANCE TO PARAGUAY BY THE UNITED STATES

834.001 Morinigo, Higinio/33 : Telegram

The Acting Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, March 3, 1943—9 p. m.

96. You are authorized on behalf of President Roosevelt, to extend an invitation to President Morinigo of Paraguay to visit the United States about the middle of June of this year as a guest of this Govern-

³⁹ Neither printed.

ment. It is understood that no publicity will be given this matter pending the acceptance of the invitation by President Morinigo and the arrangement of necessary formalities between President Roosevelt and President Morinigo by an informal exchange of views to be carried on through you.

For your information in connection with the proposed visit, it is the practice of this Government to pay all of the expenses of a Chief of State and his party only while they are in the United States. However, it will no doubt be possible to make arrangements for a United States plane to bring the President from Asunción to the United States.

WELLES

834.001 Morinigo, Higinio/51

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 970

ASUNCIÓN, April 20, 1943.

[Received April 27.]

SIR: Referring to my despatch No. 873 of March 19, 1943,⁴⁰ with regard to the visit of President Morínigo and party to the United States as guests of the American Government in the early middle part of the month of June, I have the honor to transmit herewith a copy of a brief memorandum handed me by Foreign Minister Argaña⁴⁰ outlining the subjects which Paraguay desires to have discussed during the Presidential visit.

The Foreign Minister informed me that this memorandum is the joint result of ideas and drafts submitted by three different ministers, presumably the Ministers of Finance, of Public Works, and of Agriculture, Commerce & Industry. The Department will note that the subjects relate wholly to assistance which Paraguay desires to receive from the United States, in the form of export permits for machinery, projects for Export-Import Bank financing under the three million dollar loan (of which two million dollars has already been earmarked for a highway through the Paraguayan Misiones region), a special loan to be floated by the Banco Agrícola del Paraguay, and unspecified aid regarding river transportation.

No reference is made in the outline to Lend-Lease matériel nor to the trade agreement which has been the subject of conversations now in a hopeful position.⁴¹ Doubtless these subjects, and several others, will in fact come up for discussion during the Washington visit.

⁴⁰ Not printed.

⁴¹ For correspondence regarding the trade agreement, see pp. 701 ff.

I enclose a memorandum furnishing brief and hasty notes by myself on the various subjects in their numerical order.⁴² Further information will be supplied to the Department if possible prior to the visit; ⁴³ but it is to be noted that Dr. Argaña is departing on April 28th for Brazil, and will be unavailable during the present week because of the religious holidays now commencing.

Respectfully yours,

WESLEY FROST

834.24/497

The Ambassador in Paraguay (Frost) to the Adviser on Political Relations (Duggan)

ASUNCIÓN, August 19, 1943.

[Received August 27.]

DEAR LARRY: Two things keep pressing on my consciousness here,—
(a) the implementation of the Paraguayan program for using the last \$1,000,000 of the second Exim Bank \$3,000,000 loan, and (b) the absolute lack of Lend-Lease matériel for the Paraguayan Navy.

(a) When we were in Washington the Paraguayans requested Exim aid under the new loan in setting up industries to produce cement, jute products, and citrus concentrates; and also asked if they could be helped to get some cold-storage plants going (which the country obviously needs). Collado's ⁴⁴ replies at a conference presided by Mr. Welles and attended by Phil Bonsal ⁴⁵ and myself, gave varying degrees of encouragement and discouragement; but Mr. Welles promised that experts would be sent at once on at least three of the four proposals to make surveys. He indicated that they would reach Paraguay almost immediately. Subsequently, Finance Minister Espinoza asked Mr. Welles at New York in the presence of Argaña, Morínigo and Valázquez, ⁴⁶ when the experts might be expected, and the indication was again given that it would be within a very short time. As soon as I returned to Asunción Dr. Argaña got after me about the failure of the experts to arrive; and on telegraphing to

⁴² Not printed. The Paraguayan program contemplated increased exports of farm machinery from the United States, the acquisition of a cement plant and the development of jute culture, the building of cold storage depots and mandioca starch plants, and the construction of roads, port works, and a water works system.

⁴³ President Morínigo and his party arrived in the United States on June 9. After some inconclusive conversations in Washington, the party departed on a tour of some of the automobile and war industry plants around the country.

⁴⁴ Emilio G. Collado, Special Assistant to Under Secretary of State Sumner Welles.

⁴⁵ Chief of the Division of the American Republics.

⁴⁶ Celso R. Velásquez, Paraguayan Ambassador in the United States.

the Department I was informed *that only one expert had been promised* (i.e. for cement) and that a suitable person had not been located. (See the Department's telegram No. 330 of August 7, 7 p. m.) ⁴⁷ This reply has of course not had a good effect on Argaña and Espinoza. They suspect that the Export-Import Bank is so thoroughly committed to the theory that nothing can be done in Paraguay except roads that it may not be trying very hard to help out on any of the other projects. I feel that the Export-Import Bank *does* realize now that new industries and a way of communication to Brazil must be furnished to Paraguay. I wrote very briefly to Bonsal last week to see if his memory checks mine on the statements given to the Paraguayans in Washington about the arrival of the experts to make surveys. I don't know whether you would wish to have this matter in mind.

[Here follows a paragraph on the failure of the United States to provide any Lend-Lease navy material.]

With cordial regards,

Sincerely, as ever,

WESLEY FROST

834.24/497

The Adviser on Political Relations (Duggan) to the Ambassador in Paraguay (Frost)

WASHINGTON, September 2, 1943.

DEAR WESLEY: On August 19 you wrote me about two general questions. This letter will reply briefly to the first of those relating to the economic assistance to be extended to Paraguay under the million-dollar credit.

In the first place, your telegram of yesterday ⁴⁸ informs us of the acceptance of the Paraguayan Government of the detail of the cement experts.

With regard to citrus concentrates and cold storage plants, it is my recollection that the Paraguayans were told that, although there was a serious shortage of machinery, there would be willingness on our part to fabricate a moderate sized cold storage plant and a small citrus fruit processing plant, but that exact specifications from the Paraguayan Government would be necessary before any production schedules could be worked out. There was no commitment to furnish experts to make the specifications. There is no reason why they cannot themselves get any expert assistance they may need in formulating their specifications.

⁴⁷ Not printed.

⁴⁸ No. 478, dated August 31, 1943, not printed.

With regard to the jute plant, the Paraguayans were told that jute-making machinery was manufactured exclusively in Leeds and Belfast and not in the United States. There are no American experts in this field, so we could obviously not furnish the services of any such men.

Bacon,⁴⁹ Bonsal and Collado, who were present at the various conversations with the Paraguayans, are emphatic in their statement that the only commitment for the sending of experts was in regard to the proposed cement plant.

I am just as interested as you in helping the Paraguayans to develop their resources. Let me know if there is anything further that I can do at this end.

I hope to write you in a few days about Lend-Lease assistance for the Paraguayan Navy.

Yours very sincerely,

LAURENCE DUGGAN

834.24/495

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 1333

ASUNCIÓN, September 18, 1943.

[Received September 27.]

SIR: Referring to my telegram No. 422 of July 31 (1943) 3 p. m.,⁵⁰ I have the honor to report that Foreign Minister Argaña and Finance Minister Espinoza still insist that during their visit to Washington and New York last June the Under Secretary of State promised on behalf of the American Government to send experts to Paraguay promptly to assist in preparing plans and specifications not only for a cement industry here but also for jute, citrus concentrates, cold storage and dried milk enterprises.

The three cement experts mentioned in the Department's telegram No. 358 of August 25 (1943) 10 p. m.⁵⁰ have arrived, and the Paraguayan authorities are impressed by the competence and sincerity of these advisers. The estimate made by Mr. Hillegass that definite plans cannot be begun for three or four months, and that some eighteen months would be necessary, after the plans are completed, before even a small plant could be placed in operation, is of course a disappointment; but on the whole the effect of the presence of these gentlemen is highly favorable, and the Paraguayan authorities are sincerely appreciative.

The two Ministers mentioned, however, profess an inability to understand the situation with regard to the experts on the other four proposals. When Dr. Argaña took the matter up with me on July 30th,

⁴⁹ J. Kenly Bacon, Assistant Chief of the Division of the American Republics.

⁵⁰ Not printed.

my own recollection of the statements made by the Under Secretary was in accord with this, and I consequently did not raise the question of accuracy. This has handicapped me in subsequent conversations. At the time of the interviews at Washington and New York I had been traveling and living with the Paraguayan group long enough so that I listened to the conversations in the Department and the Waldorf-Astoria Hotel almost with Paraguayan ears. I thus understood how pleased they were, after the rather adverse statements made by Mr. Collado, when the Under Secretary added very graciously that of course the American Government would be glad to send experts to aid them in surveying the possibilities on the various industries, and then added in response to a question that these experts would reach Paraguay probably within three or four weeks. In my association with the Paraguayan party during the fortnight which followed I heard them refer several times to the prospective advent of the experts, which seemed to them to indicate that our Government intended to interest itself closely in their economic aspirations rather than merely to furnish funds. It was therefore not a surprise, although Dr. Espinoza had not informed me of his intentions, when he requested from the Under Secretary in the Waldorf-Astoria Hotel on June 22nd a confirmation of this undertaking which had impressed him and his associates so agreeably. The Paraguayans present on that second occasion all understood, as did I, that the Under Secretary renewed the undertaking and indicated that probably the experts could be sent to Paraguay almost immediately.

It is of course now evident that both the Paraguayans and myself misunderstood the statements in question; and I have pointed out to them repeatedly that there is no reason why they should not themselves employ American experts for the purposes in question. They admit that from the standpoint of expenditure the matter is not of substantial consequence, as the cost of securing experts for the purpose in question would be only a few thousand dollars; but they unquestionably feel that the misunderstanding with regard to the statements made to them may possess a good deal of significance, and also that it indicates that the interest of our Government in their proposals to promote new production in Paraguay is less than they had believed and hoped.

Another member of the Paraguayan Cabinet has now informed me that at a Cabinet meeting early this week Finance Minister Espinoza dealt with this matter at some length and in a way to affect adversely the view of his colleagues with regard to the desire of the United States to tone up Paraguay's economy. I understand that Foreign

Minister Argaña, although more discreet in his tone, shared the general point of view thus expounded.

I am doing everything in my power to attenuate the feeling which has arisen, and to instill a rational spirit here with regard to Paraguayan plans for new lines of production. I am particularly emphasizing the importance and friendliness shown by the Department's willingness to arrange for the fabrication in the United States at this time of machinery and plant equipment. As the weeks and months pass an understanding will grow here of the helpfulness which our Government is manifesting.

Respectfully yours,

WESLEY FROST

834.24/495

The Secretary of State to the Ambassador in Paraguay (Frost)

No. 1060

WASHINGTON, October 14, 1943.

The Secretary of State refers to the Embassy's despatch no. 1333 of September 18, 1943 with regard to the insistence of the Paraguayan Foreign Minister and Finance Minister that they were promised during their visit to Washington and New York last June that this Government would send experts to Paraguay to assist in preparing plans and specifications not only for a cement industry but also for a number of other economic projects. It appears from the despatch that the recollection of the Paraguayan Cabinet officers is that the commitment was made in a conversation in the Department between the Under Secretary and the two Paraguayan Cabinet officers. In this connection there is enclosed a copy of a memorandum of conversation of June 11, 1943⁵² covering the meeting in question which was prepared immediately after the meeting. It will be noted that there is no mention in the memorandum of any commitment to send technical experts to Paraguay.

As the Embassy has been previously informed, the Department has made arrangements for the temporary detail to Asunción by the Office of Economic Warfare of a citrus concentrates expert in an endeavor to meet the wishes of the Paraguayan Government, although no commitment in this regard was made. The Department feels that adequate technical advice concerning possible jute, cold storage, and dried milk enterprises can be obtained by the Paraguayan Government from the members of the Food Mission of the Office of the Coordinator of Inter-American Affairs now in Paraguay and from other available local sources.

⁵² Not printed.

834.24/637

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 1471

ASUNCIÓN, November 2, 1943.

[Received November 10.]

SIR: I have the honor to refer to the Department's memorandum no. 1060 of October 14, 1943, with regard to the sending of experts from the United States to investigate or formulate plans for new Paraguayan industries.

The presence in Asunción of the cement experts and the citrus concentrate experts sent at the Department's instance has created a favorable impression; and the Paraguayan Government has for some months past been cooperating continually with the American experts in the Coordinator's⁵³ agricultural project, known as the Servicio Técnico Interamericano Cooperativo de Agricultura, with regard to projects for refrigeration, jute and ramie, and milk production.

It may be worth mentioning that the hope of the government that special experts be sent has arisen from two considerations which it regards as practical in type. (a) The creation or expansion of industry in Paraguay must largely depend upon the sales prospects for its products in the world market, and the Paraguayan Government feels that it would be unable to ascertain such prospects without the help of the American Government (partly because of the war and post-war economic controls). (b) It is felt that the formulation of plans would be inadvisable as to any industry unless the American Government, and especially the Export-Import Bank, would be likely to take an interest in such plans when once formulated; and with this in mind the presence of officially-sent experts to participate in the preliminary studies and the elaboration of such studies would be considered to be especially helpful. However, as above indicated, there seems to remain no further expectation of receiving such assistance.

Respectfully yours,

WESLEY FROST

**COOPERATION BETWEEN THE UNITED STATES AND PARAGUAY TO
PREVENT PETROLEUM PRODUCTS FROM GOING TO PROCLAIMED
LIST NATIONALS**

800.6363/1151a : Airgram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, April 16, 1943—6:30 p. m.

A-203. Your despatch 702, January 12.⁵⁴ As you know the petroleum pool is a cooperative system by which supplies of petroleum

⁵³ Coordinator of Inter-American Affairs.

⁵⁴ Not printed.

products and the facilities for transporting them are being made available, at considerable sacrifice, to many of the American republics. This system clearly does not contemplate that any of the products thus rendered accessible to the participating nations will be placed at the disposal of persons whose actions are inimical to the defense of the Hemisphere.

If Paraguayan officials allow quantities of petroleum supplied to Paraguay under the pooling arrangement to be dissipated by countenancing sales of petroleum products to Proclaimed List nationals, it would be difficult for us to regard seriously any future Paraguayan request for additional allotments based upon the needs of local economy.

Please inform the appropriate Paraguayan Government officials of the foregoing and report promptly to the Department what action is taken to deny Proclaimed List nationals access to Paraguayan supplies of petroleum products.

HULL

800.6363/1164 : Airgram

The Chargé in Paraguay (Montgomery) to the Secretary of State

ASUNCIÓN, May 1, 1943—8:00 a. m.

[Received May 6—4 p. m.]

A-138. Reference Department's airgram No. A-203, April 16, 1943, 6:30 p. m., in reply to Embassy's despatch 702, January 12,⁵⁵ regarding sale of petroleum products to Proclaimed List nationals.

Upon receipt of the Department's airgram under reference an appointment was made with the Minister of Agriculture, Commerce, and Industries,⁵⁶ under whose jurisdiction falls the rationing authority of petroleum products which is practiced by the Direction General of Industries and Commerce. The Minister as well as a representative of the Direction General of Industry and Commerce were present at the conference.

The position of the Department was fully explained to the Paraguayan authorities with emphasis upon the point that the provision of petroleum products under the Pool system makes no allowance for the distribution or sale of such products to persons or firms on the Proclaimed List of Blocked Nationals. It was further suggested that if such sale or distribution is continued it would be most difficult to justify the allotments which have now been made on the basis of the essential needs of the country's economy. In view of the tenure

⁵⁵ Latter not printed.

⁵⁶ Francisco Esculies.

[*tenor*] of the conversations the authorities were also reminded that the identical situation exists as regards the sale of any tires and tubes which, while in theory are received from Brazil, are actually part of the stocks owned by the United States Government.

The Paraguayan authorities did not dispute the position taken by the United States Government, rather did they agree that it is just and reasonable. It has been agreed that the automotive registrations of the country, particularly for Asunción, will be checked against the Proclaimed List and that any vehicles belonging to either a firm or a person on the Proclaimed List of Blocked Nationals will be eliminated and will be granted no ration of petroleum products and will not be permitted to purchase tires or tubes. The Minister pointed out that there is in the Paraguayan market a certain amount of bootleg gasoline, and even tires, smuggled out of Argentina, and that at least for the moment the local Government could do nothing to prevent this gasoline or the tires being bought by listed firms provided they are willing to pay the price. The Minister did by indirection, in reply to a question, state that he is exploring the legal implications of cancelling the operating permits of all automotive vehicles, both cars and trucks, belonging to listed firms or individuals.

There is no doubt of the willingness of the Paraguayan authorities consulted to fully meet the suggestions of the Department within the limits of available powers. The check list of the automobiles and trucks to be denied gasoline rations and the right to purchase tires has been offered to the Embassy for examination. However it is believed that this administrative process should be left entirely in the hand of the Paraguayan authorities although the Embassy will not hesitate to follow this matter through should any vehicles belonging to listed parties be seen in circulation after a reasonable period of time has elapsed.

MONTGOMERY

800.6363/1164 : Airgram

The Secretary of State to the Ambassador in Paraguay (Frost)

WASHINGTON, May 26, 1943—6:05 p. m.

A-241. Reference your A-138 of May 1, 1943. The willingness which you found on the part of the Paraguayan authorities to meet the suggestion of the Department in the matter of keeping petroleum products from persons or firms included in the Proclaimed List is noted. You are requested to report within a month or so on the degree to which the desired results have been achieved.

The Department agrees that rather than having the Embassy examine lists of automobiles and trucks to be denied gasoline rations,

this administrative process should be entirely left in the hands of the Paraguayan authorities.

Should you deem it advisable to follow up the matter with the Paraguayan government in the event that Proclaimed List vehicles continue in circulation, it would probably be desirable to limit your representations to cases where the evidence which resulted in Proclaimed List action is particularly strong.

HULL

800.6363/1203

The Chargé in Paraguay (Montgomery) to the Secretary of State

No. 1091

ASUNCIÓN, June 5, 1943.

[Received June 12.]

SIR: I have the honor to refer to the Embassy's Despatch No. 702, dated January 12th,⁵⁸ in which the Department was requested to indicate a policy regarding the sale of petroleum products supplied by the Pool Committee by Paraguayan authorities to local firms on the Proclaimed List of Blocked Nationals. Reference is also made to the Department's reply, airgram No. A-203, dated April 16, 6:30 p. m., 1943 and the Embassy's acknowledgment, airgram A-138, dated May 1, 8 a. m., 1943. The Embassy's reply under reference stated that this matter had been called to the attention of the Minister of Agriculture, Commerce and Industries and that he was in full agreement with the Department's position that petroleum products provided under the Pool system should not be made available to the firms or persons in this country on the Proclaimed List.

During the course of the month of May a close study has been made of the automotive vehicles registered with the municipality with the idea in mind of identifying those belonging to Listed firms. When gasoline ration tickets were made available for the month of June these vehicles and their proprietors were refused gasoline rations. A list of the vehicles involved is being attached hereto⁵⁸ for the information of the Department.

From the point of view of actual numbers the attached list may not be considered as impressive. It is important that the Government has conformed to its undertaking and has definitely refused gasoline to these firms. Conigliaro is one of the most important trucking firms in Asunción while Zanotti, Cavazzoni, Billi y Cía rank as one of the most important importers of foodstuffs. This development, as might be expected, has raised a tremendous amount of adverse

⁵⁸ Not printed.

comment against the Direction General of Industries & Commerce which is responsible for the allocation of fuel quotas. However, the Direction General as well as the Minister of Agriculture have firmly stood their ground and it is refreshing to say the least that such steps have been taken by the Paraguayan Government.

Upon the occasion of the discussion regarding this policy with the Minister of Agriculture it was also mentioned to him that in principle the same policy should apply to all supplies imported from the United States and also tires and tubes which are obtained from Brazilian sources. The Embassy has been assured by the competent authorities that the trucks belonging to Listed firms which have been refused gasoline supplies will also be refused purchase orders for either tires or tubes.

Respectfully yours,

EDMUND B. MONTGOMERY

NEGOTIATIONS RESPECTING A TRADE AGREEMENT BETWEEN THE
UNITED STATES AND PARAGUAY

611.3431/42a

The Secretary of State to the Ambassador in Paraguay (Frost)

No. 792

WASHINGTON, April 13, 1943.

SIR: Reference is made to the Department's instruction no. 139 of December 29, 1941⁵⁹ and more recent communications regarding the general provisions for the proposed trade agreement between the United States and Paraguay.

There is enclosed (1) a revised draft of the general provisions, together with (2) an explanatory memorandum regarding the changes which have been made in the previous draft.⁶⁰ In general these changes are the result of experience which has been gained in trade-agreement negotiations subsequent to those with Argentina, the provisions of the agreement with that country⁶¹ having served as the basis for the text which was enclosed with the Department's instruction of December 29, 1941 under reference. There is also enclosed (3) a suggested text in Spanish which may prove of some assistance to the Paraguayan authorities. With appropriate changes, and in accordance with the desire of the Paraguayan Government, this text follows closely the general style of the Spanish text of the trade agreement with Argentina.

⁵⁹ Not printed.

⁶⁰ Neither printed.

⁶¹ Agreement of October 14, 1941; for text, see Department of State Executive Agreement Series No. 277, or 56 Stat. (pt. 2) 1685.

You are authorized to present the documents mentioned above to the Paraguayan authorities and to endeavor to obtain their agreement to the revised text.⁶²

You should also endeavor to reach an agreement with the Paraguayan authorities on the question of the exchange of notes and final minutes as set forth in enclosures four and five and at the end of page two of the Department's instruction of December 29, 1941 under reference.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

611.3431/56

Memorandum by the Chief of the Division of Commercial Policy and Agreements (Hawkins) to the Secretary of State

[WASHINGTON,] June 21, 1943.

PARAGUAYAN TRADE AGREEMENT NEGOTIATIONS

MR. SECRETARY: Further discussions were held in New York over the weekend with the Paraguayan Finance Minister⁶³ regarding the points on which agreement should be reached before issuance of the notice of intention to negotiate. An agreement was reached, subject to your approval, along the following lines:

It was pointed out to the Finance Minister that it had been our practice to consider all charges collected at the customs (before release of the goods), whether basic import duties, import surcharges or internal taxes collected at the customs, as charges on or in connection with importation, thus being distinguished from charges (which we considered internal taxes) collected on imported goods after release from the customs.

On the basis of such a distinction, the Finance Minister agreed to accept the substance of our "standard" provision for national treatment on internal taxes, and for a binding of all import charges without exception on products on which concessions would be granted. This would mean: 1) national and most-favored-nation treatment without any exception in the case of internal taxes collected after release of goods from the customs; 2) most-favored-nation treatment on imported goods with respect to all charges collected at the customs before release of the goods; and 3) binding without exception of all charges collected at the customs on goods imported from this country on which concessions may be granted.

⁶² The draft agreement was submitted to the Paraguayan Ministry for Foreign Affairs and referred by it to a special technical commission for study.

⁶³ Rogelio Espinoza.

With agreement by the Finance Minister on the above points as a basis for negotiations, I believe we are quite safe in issuing public notice⁶⁴ before the President of Paraguay⁶⁵ starts his journey home tomorrow. A draft press release for that purpose is attached for initials, if you approve. There is also attached for initials a memorandum of understanding⁶⁶ on the above points, which would be handed the Finance Minister, if you approve.

HARRY C. HAWKINS

611.3431/58e

The Secretary of State to the Ambassador in Paraguay (Frost)

No. 972

WASHINGTON, August 17, 1943.

SIR: In accordance with the understanding reached with the Ministers of Foreign Affairs⁶⁷ and Finance of Paraguay during their visit to Washington in June in the company of President Morínigo, regarding the proposed trade agreement between the United States and Paraguay, there is enclosed for transmittal to the Minister of Foreign Affairs a revised text of the general provisions and related notes for that agreement.⁶⁸ There is also enclosed a memorandum which will serve to explain the new draft text in the light of the discussions in Washington and the points raised in the Paraguayan counterdraft enclosed with the Embassy's despatch no. 1080 of June 2, 1943.⁶⁸ You may proceed to discuss this revised text with the Paraguayan officials, and endeavor to obtain agreement upon it. The Department will of course consider carefully any points which may still not be acceptable to the Paraguayan officials, but an effort has been made in the enclosed revised text to meet the various points raised by those officials in connection with the earlier text.

In due course, following consideration of the information presented at the public hearings on August 4, the Department will send to you for formal negotiation with the Paraguayan officials definitive proposals regarding Schedules I and II.⁶⁹

Very truly yours,

For the Secretary of State:
DEAN ACHESON

⁶⁴ For public notice of intention to negotiate a trade agreement with Paraguay, released June 23, 1943, see Department of State *Bulletin*, June 26, 1943, p. 597.

⁶⁵ Higinio Morínigo, President of Paraguay, was on a visit in the United States during June; see pp. 690-692.

⁶⁶ Attachments not printed.

⁶⁷ Luis A. Argaña.

⁶⁸ None printed.

⁶⁹ Schedule I was a list of United States exports on which the Department sought concessions from Paraguay. Schedule II included a list of concessions to Paraguay.

611.3431/66b

The Secretary of State to the Ambassador in Paraguay (Frost)

No. 1030

WASHINGTON, September 28, 1943.

SIR: With reference to the concluding paragraph of the Department's instruction no. 972 of August 17, 1943, in which it was stated that definitive proposals regarding schedules for inclusion in the proposed trade agreement with Paraguay would be forwarded following consideration of the information presented at the public hearings, there are enclosed definitive proposals regarding Schedules I and II of the agreement.⁷⁰ You may transmit these Schedules to the Minister of Foreign Affairs and proceed to a discussion of them in an endeavor to obtain agreement thereon.

In formulating the list of concessions on products of the United States imported into Paraguay, this Government has attempted to restrict its requests to moderate proposals, keeping in mind the extent of the concessions it is in a position to offer in Schedule II of the agreement. In the case of the majority of the items in Schedule I which involve trade of considerable value, it will be noted that United States requests are merely for the binding of existing customs treatment.

If Paraguayan officials are not willing to bind the present rates of duty on lubricating oils and greases, in accordance with this Government's request on Tariff Paragraph 156 of Schedule I, you are authorized to drop the request on that item. In the event of an unwillingness by those officials to grant the concessions requested on any other items, the matter should be referred to the Department for further consideration.

The rates of duty which are set forth in Schedule I are the basic Paraguayan import duties only. It is understood, of course, that in accordance with the provisions of the second sentence of Article VII of the General Provisions of the proposed agreement, supplementary duties, taxes, et cetera, on products imported from the United States which are included in the Schedule will be bound against increase during the life of the agreement.

It is not believed that the individual items in Schedule I require specific comment except perhaps in the case of the note following Paragraph 154. For your own information, it is the Department's understanding that the bulk of imports of leaf tobacco from the United States would properly be classified under Tariff Paragraph 154(d) at a high rate of duty, whereas, as a matter of practice, such imports are actually entered under Paragraph 154(e) at a substantially lower rate of duty. The purpose of the note, of course, is to

⁷⁰ Not printed.

maintain, during the life of the agreement, this apparently irregular but favorable tariff situation affecting imports of leaf tobacco from the United States. If the Paraguayan authorities raise difficulties about the inclusion of the note (which is of greater value than the binding of the rate of duty under 154(e)), you might point to the fact that, in one of the four exchanges of notes which supplemented the trade agreement between the United States and Argentina, provision was made for continuing, during the life of that agreement, the existing customs treatment of certain articles about which there might have been some doubt.

The note which follows Tariff Paragraph 667 should be self-explanatory. It relates to such office equipment as "Dictaphones", and is included at the request of an exporter who had found that his product was apparently being subjected to import duties as a musical instrument at much higher rates than those generally applied to office equipment. You might point out to the Paraguayan officials that a number of other governments have, in recent trade agreements with the United States, agreed to the classification of such machines as office equipment. Paragraph 667 seems to be the most suitable paragraph in this section of the tariff under which to include the note on dictating machines and parts and accessories thereof.

Purely as a matter of convenience to you and possibly to the Paraguayan officials, the proposed Schedule I has also been prepared in Spanish, in conformity with the Paraguayan Tariff.

There is also enclosed for your convenience a copy of the report ⁷¹ on Schedule I of the Country Committee on Paraguay to the Committee on Trade Agreements. This report is sent to you solely in order that you may have readily available trade statistics regarding each item included in the Schedule. The columns referring to the proposed rates of duty should be ignored, as the proposals of the Country Committee were considerably modified by the Committee on Trade Agreements.

It may be useful, in your discussions with the Paraguayans, to have available data regarding trade coverage. From that standpoint, products listed in Schedule I accounted for 28.6 percent of total Paraguayan imports from the United States in 1940 while products listed in Schedule II accounted for more than 95 percent of total United States imports from Paraguay in the same year.

With regard to Schedule II, this Government has not found it possible to accede to the Paraguayan Government's request for concessions on castor oil, lemon-grass oil and certain fatty acids and salts derived from tallow, but requests for concessions on all other items which were included on the list published here have been granted to

⁷¹ Not printed.

the full extent permitted under existing authority. It is understood that the tallow acids and salts are not produced in Paraguay and their omission should therefore not be the cause of any concern to the Paraguayan authorities.

With reference to the omission of castor oil and lemon-grass oil from Schedule II, you may inform the Paraguayan officials that, in the opinion of this Government, the position of Paraguay as a present or potential supplier of the United States market does not warrant a concession on these products to Paraguay in the first instance. If they should be the subjects of concessions in later trade agreements negotiated by this Government with other countries which are important suppliers, however, imports from Paraguay would of course be entitled to most-favored-nation treatment.

It will be noted that the description of rum appearing in Schedule II is the same as that used in previous trade agreements, and no special reference has been made to "Paraguayan" rum. If the Paraguayan officials take notice of this and again request specific reference to "Paraguayan" rum, you may inform them that despite thorough investigation here it has been impossible to obtain sufficient information regarding that product and its use, if any, in the United States to permit specific reference to it in the Schedule. As a matter of practice, the Bureau of Customs insists that when some specific description such as "Paraguayan rum" is used in a schedule, such reference shall be the common and commercial designation of the product in the United States market. If the Paraguayan officials insist on some such specific designation (which in any case will result in no more beneficial concession than can be granted on rum generally), you should request them to provide as detailed information as possible concerning the products used in and the process of manufacture of, the product, as well as any other information which they can supply regarding the sale of the product in foreign countries including the United States, and the specific name by which it is known. It would be helpful, if you should have need to report further on this matter to the Department, to include a label used on the product as sold in Paraguay or abroad.

It will be noted that concessions to the maximum extent permitted by the Trade Agreements Act have already been granted on many of the products included in the proposed Schedule II. In discussing this Schedule with the Paraguayan authorities, you should emphasize the fact that the concessions offered represent the greatest improvement in tariff treatment which it is possible to accord in relation to the statutory rates set forth in the Tariff Act of 1930. You should also stress the value of the fact that, as a result of the proposed agreement, the improved treatment of the products included in Schedule II

would be granted to Paraguay in its own right and that the Paraguayan products in question, upon importation into the United States, would no longer have to depend upon extension of most-favored-nation treatment by the United States in order to obtain such improved treatment. Unless these facts are pointed out, Paraguayan authorities may be inclined to overlook them in their consideration of the proposed Schedule.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

611.3431/68

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 1448

ASUNCIÓN, October 27, 1943.
[Received November 4.]

SIR: I have the honor to refer to the Department's Instruction No. 972 dated August 17th, 1943, (file No. 611.3431) enclosing for transmission to the Ministry of Finance a revised text of the general provisions and related notes regarding the proposed trade agreement between the United States and Paraguay.

The revised text was submitted to the Foreign Office with an unofficial translation on August 30, 1943, and on numerous occasions since that time the Minister of Hacienda and officials in the Foreign Office have been contacted by First Secretary Montgomery to obtain the approval of the revision, in view of the current belief that no action would be taken until the completion of negotiation of a trade agreement with Argentina. Assurances had been given me repeatedly by the Foreign Minister that the two agreements were not inter-related, and by the Minister of Hacienda that the matter of the American-Paraguayan agreement would be cleared up prior to his departure for Buenos Aires.

However, after the closing of the Foreign Office on October 23, the Embassy received Note No. 718 dated October 22, 1943 with a copy of a memorandum of the Ministry of Hacienda containing observations made by that Department regarding various articles of the revised draft. Copies of this note and its enclosure are enclosed herewith.⁷² No indication was previously given by the Ministry of Hacienda that the draft was not to be approved unconditionally, and no opportunity was given to discuss it either with the Ministry of Hacienda or the members of the Interdepartmental Committee prior to the departure of the Minister for Buenos Aires accompanied by Mr. Julio Bajac, the

⁷² Neither printed.

leading Foreign Office official dealing with the American-Paraguayan trade agreement.

In view of the manner in which the Minister of Hacienda has handled this matter, I cannot escape the feeling that the delay has been deliberate so as to avoid the necessity for action prior to the Paraguayan-Argentine negotiations. There was ample time to permit consideration and a decision so that it could be submitted to the Department for approval or comment prior to October 25, had the Minister desired to facilitate that course.

There is also enclosed a copy of the unofficial translation ⁷³ that was sent by the Embassy to the Foreign Office with the revised draft.

Respectfully yours,

WESLEY FROST

634.3531/41

The Ambassador in Paraguay (Frost) to the Secretary of State

No. 1562

ASUNCIÓN, November 23, 1943.

[Received December 1.]

SIR: I have the honor to refer to my despatches Nos. 1530 and 1552 of November 13 and November 20, 1943, respectively,⁷⁴ and to report that although Foreign Minister Argaña returned to Asunción yesterday and Finance Minister Espinoza on the previous day, my conversations with them thus far have been brief and casual. As there is no northbound pouch after today for five days, the following general preliminary observations on the trade treaty ⁷⁵ may be offered at this time.

The treaty contains two or three evidences that Dr. Espinoza secured the inclusion in it of provisions which he discussed in Washington last June (with Messrs. Fowler and Smith ⁷⁶) in connection with our own prospective trade agreement, and which were apparently special ideas of his. (a) The Argentine-Paraguayan trade agreement will only cease to function *one year* after denunciation by either side. It will be recalled that he objected strongly to our provision for the termination of our trade agreement only *thirty days* after denunciation. (b) The treaty with Argentina provides for a mixed commission with important functions, in conformity with Dr. Espinoza's idea that such a mixed commission can keep trade agreements alive

⁷³ Not printed.

⁷⁴ Neither printed.

⁷⁵ For text of the Argentina-Paraguay trade agreement, see Ministerio de Relaciones Exteriores y Culto de la Republica Argentina, *Instrumentos internacionales de caracter bilateral suscriptos por la Republica Argentina*, vol. II, p. 1207.

⁷⁶ William A. Fowler, Acting Chief, and H. Gerald Smith, Assistant Chief, Division of Commercial Policy and Agreements.

by adapting them continually. (c) The problem presented by Paraguay's incredibly tangled system of special internal duties on imported goods, which amount to the second zone of tariff defense, is covered in the Argentine treaty by approximately the same language which Finance Minister Espinoza proposed in Washington when we endeavored to provide against future discrimination arising from these secondary and indirect imposts upon importation.

An interesting provision in the supplementary Argentine-Paraguayan "Convenio Complementario" looking toward the balancing of exports and imports between the two countries provides (see its Article 5) for the promotion of new industries in Paraguay, for the despatch of Argentine experts and technicians to study and formulate plans for such new industries, and for the use of Argentine capital in connection with them, drawn from funds deposited as a result of the balancing operations. This doubtless reflects Minister Espinoza's disappointment that the American Government would not send experts to study possibilities for new Paraguayan industries, in accordance with the present Paraguayan urgent desire to *foment new production* in this country. From a practical standpoint the arrangement need not be taken with seriousness, however, as it is to be doubted whether Argentine technical advisers and funds will actually be forthcoming in a manner actually to effect the founding of new industries here.

It is perhaps to be deprecated that the Mixed Commission to formulate measures to bring about the Customs Union between the two countries will likewise have other functions of a permanent nature, so that it will constantly hold meetings from time to time during the life of the commercial agreements. If the Commission had been solely for the purpose of working toward the Customs Union its sessions might have been sporadic and it might gradually have ceased to be very active.

With regard to the visit of President Morínigo and Dr. Argaña to Buenos Aires in mid-December, I am informed confidentially by the Uruguayan Minister here that there seems to be little prospect of a visit to Uruguay at that time. The Paraguayan Government is seriously dissatisfied at the campaign conducted by Uruguayan labor unions, students and newspapers against the Morínigo regime; and while it does not doubt that the Uruguayan Government would take suitable precautions if Morínigo were to accept its still-outstanding invitation, it believes that untoward incidents would be highly likely to occur. This will leave Uruguay as the only country in South America to which President Morínigo will not have made an official visit during the present year. Presumably he and Dr. Argaña hope that Uruguay will take steps gradually to bring about the disappearance of the hostile agitation in Montevideo.

During my two curbstome conversations with Finance Minister Espinoza since his return he made two remarks which may be of interest. In the first place he was anxious to learn whether the American Government has indicated that it accepts Paraguay's assurances of continued loyalty to the American and Allied group of nations despite the negotiation of the Argentine agreements. (A certain amount of delay in any indication of the Department's attitude might possibly not have an unwholesome effect here.) In the second place he inquired at once regarding the Department's reactions to his requests for changes in the text of the proposed Paraguayan Trade Agreement with the United States. It is conjecturable that he has a private sense of apprehensiveness because of his unjustifiable delay in dealing with the draft submitted to him after his return from Washington embodying the agreements which he had accepted when he was in the United States. He will probably be glad to move promptly now to secure the Agreement with us, as a demonstration that Paraguayan-American relations have not been damaged.

Respectfully yours,

WESLEY FROST

611.3431/41

Memorandum by Mr. R. Horton Henry of the Division of Commercial Policy and Agreements to the Chief of the Division of the American Republics (Bonsal)

[WASHINGTON,] December 15, 1943.

MR. BONSALE: Reference is made to your memorandum of December 13,⁷⁷ inquiring as to the status of the trade-agreement negotiations with Paraguay.

A memorandum has just been prepared for the members of the Trade Agreements Committee outlining the substantive objections on the part of the Paraguayans to the revised draft general provisions. In their counterproposal, the Paraguayans wish to omit the requirement of thirty days' advance notice in the case of administrative rulings effecting advances in rates of duty. A definitive decision on this point will be postponed pending determination as to whether the requirement would involve a modification of the basic customs law of Paraguay or merely entail a change in present administrative practice.

The second point raised by the Paraguayans concerns the impairment and nullification clause of the general provisions. This Division has submitted for the approval of the Trade Agreements Committee an alternative which, it is felt, will meet the objections of the Paraguayans.

⁷⁷ Not printed.

The proposed Schedules I and II will be discussed with the Paraguayan Government in a definitive manner as soon as agreement has been reached on the general provisions.⁷⁸

⁷⁸ In his despatch No. 1494, November 5, 1943, the Ambassador had recommended a new review of the proposed schedules because of the drastic changes in the Paraguayan customs and currency laws. The negotiations did not come to fruition in a trade agreement until September 12, 1946. (611.3431/69)

PERU

AGREEMENT BETWEEN THE UNITED STATES AND PERU CONCERNING AN AIR SERVICE, ADJUNCT TO THE PROJECT OF DEVELOPING WILD RUBBER, ENTERED INTO ON FEBRUARY 18, 1943

[The text of this agreement is an enclosure to despatch No. 6148, February 19, 1943, from the Ambassador in Peru, not printed (823.796/261). The agreement provided that the Defense Supplies Corporation should construct such airports as were necessary for gathering wild rubber, on land donated by Peru, using materials made available by but not at a cost to Peru. The Defense Supplies Corporation was to operate the airports and provide and operate aircraft. Peru was to refund certain taxes on the Corporation's supplies and personnel, grant passport visas, and allow the Corporation to operate radio stations. The agreement was to be coterminous with the rubber agreement between the United States and Peru of April 23, 1942 (see *Foreign Relations*, 1942, volume VI, pages 664 ff.), and at its termination the airport facilities, except movable items, were to become the property of Peru.]

DISCUSSIONS BY THE UNITED STATES AND PERU OF SHIPPING PROBLEMS

800.8820/1008

The Ambassador in Peru (Norweb) to the Secretary of State

No. 5985

LIMA, January 30, 1943.
[Received February 13.]

SIR: I have the honor to inform the Department regarding the course of continued discussions with Finance Minister East concerning the use of Peruvian ocean carriers in the United States trade.

Mr. East did not modify his position that chartering is unacceptable,¹ but reiterated Peru will place two vessels in this trade on a permanent basis without diverting them for other uses. They will be

¹ The Ambassador had reported in his despatch No. 5758, January 5, 1943, that Peru opposed chartering because it considered her vessels as the only independent tie to the outside world, and regarded W. R. Grace and Company as dominated by the War Shipping Administration (800.8820/929). However, in his despatch No. 5709 of December 31, 1942, the Ambassador had noted Peru's willingness to allow chartering her vessels on the condition that the United States agree to purchase 700 to 800 tons of surplus wool and to provide certain gold mining supplies (800.8820/917).

under the direct administration of the Peruvian Steamship Company which is owned by the Government. He expressed no further interest in importing wheat from the United States. Other Peruvian and foreign bottoms will be used for the Argentine trade.

The Minister was in possession of a telegram from the Peruvian Embassy in Washington indicating 6,500 tons of wool had been tentatively spoken of as a satisfactory amount to consider. This sum differs from his previous estimate of 700 to 800 tons which evidently represented only alpaca wool. In any case the 6,500 tons were described as of the 1943 clip and is the amount Peru desires to ship in 1943. This quantity does not include a 2,500 ton carry-over from 1942 which the Minister believes can be disposed of in markets outside the United States.

A summary of the Minister's views was reported in telegram No. 133 of January 28, 5 p. m., 1943,² to which the Embassy added its recommendation that the amount of admissible wool be diminished proportionally to his reduction from four to two vessels. Mr. East resisted the suggestion regarding the proportional decrease for wool; remarked it might be best to sell the wool in Mexico, whence inquiries had been received; and observed that the entire problem had been disposed of in our last conference. He even ventured that in the future it would be convenient to have the statements of the American Government in writing so that there could be no question of what was previously said.

After reminding him there is no misunderstanding, that negotiations are impossible if one of the participants insists on the adoption of his entire program without considering the desires of the other, we finally agreed heartily the only difference consists of Mr. East's pressure for the maximum amount of wool while the American authorities were endeavoring to obtain as many vessels as possible.

He requested that the American Government assign a reasonable percentage of space for such cargo as the Peruvian authorities should desire to ship northward and agreed to the reasonableness of a similar provision regarding southbound cargo of interest to the United States. He based his request for space reservation on information regarding the arrangement with Argentina and could see no reason why similar treatment could not be given Peru, even though Argentina had accepted the charter provision and Peru will not.

He expressed the desire that the United States afford the customary facilities extended to Allied ships in war time.

Presumably the next move will be taken in Washington, but should any new developments occur in Lima, the Department will be informed promptly.

Respectfully yours,

R. HENRY NORWEB

² Not printed.

800.8820/1206 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, May 14, 1943—6 p. m.

[Received 10:21 p. m.]

697. Reference Embassy's telegram No. 680, May 11, 7 p. m.³ and previous communications regarding Peruvian ships in United States trade. The Finance Minister and the Embassy have received notice from Grace and Company that the War Shipping Administration insists the *Ucayali* load cargo for New Orleans and gives the impression the ship is more or less prohibited from going to San Francisco.

Our original agreement was the two ships would go to the West Coast. The Finance Minister has assumed a responsible attitude but earnestly requests that the ships be authorized as usual to load for San Francisco until full cargoes for Peru are available there. Thereafter he will send them to New Orleans to cooperate as closely as possible with the United States.

This request seems reasonable and I wish to recommend it for the Department's most serious consideration.

NORWEB

800.8820/1206 : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, May 19, 1943—6 p. m.

579. Your 397 [697], May 14, 6 p. m. Because of port conditions on the West Coast arising from military considerations and because of congestion of transcontinental rail facilities all lines formerly operating between the West Coast of South America and the West Coast of the United States have been requested to transfer their operations to United States Gulf ports. Both vessels of the Chilean Line and those operated by Grace and Company are affected.

It is hoped that Finance Minister will understand this change in our original agreement is dictated purely by reasons of war necessity. There is little if any cargo for Peru now on the West Coast since shipments are not authorized to move until booking on a specific vessel has been accomplished. Inasmuch as no bookings have yet taken place for movement to Peru out of West Coast, there should be little if any cargo on hand for Peru in West Coast United States ports. The Department understands also that one of the Peruvian vessels will be permitted to go to the West Coast. For your information this vessel (probably the *Perene*) can not make convoy speed in the Gulf.

³ Not printed.

Through a misunderstanding some wool permits have not yet been issued by WPB.⁴ This is now to be done immediately and the wool will move in Peruvian vessels. Grace and Company received their instructions respecting Peruvian vessels from the War Shipping Administration and should any problems arise in connection therewith you should first discuss the matter with Grace.

HULL

800.8820/1248 : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, June 12, 1943—11 p. m.

684. Your despatch 6923, May 24.⁵ Conversations with Chavez⁶ and interested agencies have led to the conclusion that the Peruvian export control cannot be coordinated with our import control without much loss of time and delay of shipments. Peru would lose by such interference with her exports. WSA⁷ cannot be expected to put in vessels to lift Peruvian products without assurance that these products can be exported. Such control is likely to interfere especially with occasional last-minute arrangements to fill in with non-essential cargo which Peru cannot ordinarily ship.

It is believed here that WSA has not discriminated against the Peruvians in the allocation of cargo. Delay in getting cargo for the first trip of the Peruvian vessels was caused by the lack of an agent here (see Department's 212, February 22).⁵ On May 7, before the *Ucayali* was ready to load for second voyage, Grace, as WSA's agent, cabled that zinc concentrates cargo was being worked out. When this was not accepted, a sugar and wool cargo was agreed to by a Grace cable of May 22. Now, WSA learns that the *Perené* will carry this sugar and perhaps some flax, and the Peruvians want the *Ucayali*, which is now engaged in coastal trade, to load lead and copper bars in late June.

It appears that the Peruvians do not wish to carry priority cargo laid out by WSA as had been agreed. If you believe it will help to make the Peruvians forget, hereafter, their objection to putting the *Ucayali* in the New Orleans run, permission will be granted for the lead and copper cargo, but we would much prefer to have priority cargo moved.

The Department feels that it may have been a mistake for the request for the *Ucayali* to go to New Orleans to have come through

⁴ War Production Board.

⁵ Not printed.

⁶ Juan D. Chavez, Peruvian Commercial Counselor in the United States.

⁷ War Shipping Administration.

Grace, but it is hoped the Peruvians will understand the request was made only because unanticipated congestion on the West Coast forced diversions of all vessels possible to other areas. Chilean and Grace Line vessels are also required to go into the Gulf.

Please endeavor to straighten out the misunderstanding with the Peruvians and see if a better understanding of the situation will not lead them to withhold application of the export control.

Your recommendation as to whether the *Ucayali* should be permitted to move lead and copper bars is needed promptly since WSA is delaying an answer to the Peruvian request.

It has just been learned that 1500 tons of zinc concentrates at Supe can be made available for *Ucayali* and this is far more needed for the war effort than lead. It is hoped you can arrange to have it lifted.

HULL

800.8820/1291

The Ambassador in Peru (Norweb) to the Secretary of State

No. 7219

LIMA, June 28, 1943.

[Received July 5.]

SIR: I have the honor to inform the Department that the Minister of Foreign Affairs⁹ has expressed concern over recent report, that with the sale of the Chilean passenger vessels to the American Government this coast will be without passenger service.¹⁰

The Minister remarked that this is a disturbing development, and added that many Peruvian business men and officials are unable to travel abroad on business considered important to them owing to the limitations on transportation by Panagra.¹¹ He cited recent reports submitted to him to the effect that about eighteen outstanding Peruvians are now off-loaded at different air terminals between Lima and Miami and that the congestion seems to be increasing rather than diminishing. He inquired if there is any immediate prospect of relief either by inaugurating restricted steamer passenger service or increasing the number of airplanes on the West Coast run.

Consequently, if the Department is in possession of any useful information regarding the possibility of improvement, I should appreciate knowing of it.

Respectfully yours,

R. HENRY NORWEB

⁹ Alfredo Solís y Muro.

¹⁰ For correspondence on Chilean shipping problems, see vol. v, pp. 862 ff.

¹¹ Pan American Grace Airways.

811.20 Defense (M) Peru/939 : Airgram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, August 5, 1943—5 p. m.
[Received August 10—8 p. m.]

A-1196. Reference airgram A-1163, July 27, 5 p. m., and telegram No. 1044 of August 2, 5 p. m.¹² from Libbey¹³ to Rosenthal,¹⁴ OEW, regarding the desire of the Peruvian Government to obtain shipping space for wheat on ships returning from Australia.

Supplementing the information supplied by Captain Alzamora,¹⁵ I wish to inform the Department and other interested dependencies of the American Government that Finance Minister East today stated he and the President had discussed this matter and had agreed to submit a direct request to me for assistance in obtaining the allocation of shipping space for 100,000 tons of Australian wheat for delivery during the remainder of this year or perhaps extending over into the first two or three months of 1944. The Minister stated that this is a necessary, precautionary measure owing to the general shortage of bottoms and the limited number of Peruvian ships, one of which was recently damaged in Chilean waters.

Consequently the request of the Minister is being forwarded with the recommendation that the Department render such assistance as may be appropriate, considering the importance of maintaining the Peruvian bread supply which is so largely dependent on imported wheat.

NORWEB

800.8820/1291

The Secretary of State to the Ambassador in Peru (Norweb)

No. 2657

WASHINGTON, August 7, 1943.

SIR: Reference is made to your despatch no. 7219 of June 28, 1943 concerning the probable suspension of ocean transportation services to the West Coast of South America.

While the sale of the Chilean passenger vessels to the United States has not as yet been consummated, it is confidently expected that the vessels will be acquired shortly, thus withdrawing them from passenger service. In so far as the Department is aware, there is no immediate prospect of the situation being relieved by any additional shipping service. With reference to the possible increase of the num-

¹² Neither printed.

¹³ W. G. Libbey, Representative of the Office of Economic Warfare in Peru.

¹⁴ Morris S. Rosenthal, Assistant Director, Office of Economic Warfare.

¹⁵ Capt. José R. Alzamora, Coordinator of the Peruvian Office for General Coordination of Transport.

ber of airplanes on the West Coast run, the Department is fully aware of the situation which will be created by the withdrawal of the Chilean vessels and has supported a recent Panagra request for additional transport aircraft. Although this type of airplane is in urgent demand, it is understood that Panagra has been assigned two additional planes, which should help to alleviate the congested air traffic conditions in your area.

Very truly yours,

For the Secretary of State:
G. HOWLAND SHAW

811.20 Defense (M) Peru/939 : Airgram

The Acting Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, August 21, 1943—5:10 p. m.

A-928. Your A-1196, August 5, 5 p. m. Department inquired of the War Shipping Administration as to the possibilities of obtaining the allocation of shipping space for 100,000 tons of Australian wheat for delivery during the remainder of 1943 and possibly extending into the first part of 1944. The War Shipping Administration is definitely opposed to rendering any assistance in the allocating of shipping space for movement of wheat from Australia on the grounds that Peru is receiving ample supplies of wheat at the present time from Argentina and Australia, and that to arrange wheat imports from Australia would require diversions of shipping and serious delays at a time and in an area where this must be avoided for obvious military reasons.

According to the records of the War Shipping Administration, the movement of wheat from Australia to Peru in 1943 through June 22, 1943 amounted to 31,429 tons. Additional expected arrivals of Australian wheat in Peru amount to 17,100 tons, or a total movement of wheat from Australia to Peru known to date in 1943 of 48,529 tons.

In addition, statistics of exports of wheat from Argentina to Peru for 1943 through July 8, 1943 show a total movement of 40,109 tons. This compares with the total exports of wheat from Argentina to Peru for recent years as follows:

<i>Exports of Wheat to Peru</i>	
<i>Year</i>	<i>(Tons)</i>
1940	121,928
1941	94,764
1942	131,468

To summarize the above, the total of arrivals and expected arrivals of wheat in Peru from Argentina and Australia to date in 1943 amount to 88,638 tons.

If Embassy is of firm opinion that Peru is facing a crisis with respect to Peruvian wheat supply, the War Shipping Administration informs the Department that it sympathetically would consider releasing the Peruvian Government from its obligation of maintaining the two Peruvian vessels now in the trade between Peru and the United States, which vessels could be employed in transporting wheat from Argentina.

WELLES

800.8820/1353 : Airgram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, September 18, 1943—6 p. m.

A-1014. Your A-1316, September 4, 1943.¹⁶ The Department has communicated again with the War Shipping Administration concerning the allocation of shipping space for the movement of wheat to Peru from Australia, Argentina or any other source. That agency has reiterated its inability to allocate such space. Without going into details about the routing of vessels from the South and Southwest Pacific, the War Shipping Administration has again informed the Department that diversion of vessels to the West Coast of South America cannot be done at the present time without an appreciable loss of ship time at a period when it can be least afforded because of overall requirements in the Pacific.

With respect to the requisitioning by British and Australian authorities of two Norwegian vessels scheduled to move under charter over 15,000 tons of wheat from Australia, information possessed by the War Shipping Administration indicates that these Norwegian vessels already had been chartered by the Australian Government and presumably have been diverted from the Peruvian trade because of more urgent Australian requirements in other areas.

The War Shipping Administration has also informed the Department that it has neither been advised of the taking off of the Peruvian-American run of the *Ucayali* and the *Perene* nor of the contents of the correspondence between the Office of Economic Warfare in Washington and its representative in Peru concerning the same subject.

The War Shipping Administration has pointed out to the Department that the Peruvian merchant marine fleet engaged in foreign trade consists of seven vessels, namely: *Tumbes*, *Apurimac*, *Rimac*, *Perene*, *Ucayali*, *Maranon*, *Mantaro* and *Urubamba*. After making allowances for the routing of a vessel to Chile for the hauling of

¹⁶ Not printed; it reported that two Norwegian vessels, scheduled to bring to Peru some 15,000 tons of wheat, had been requisitioned by British and Australian authorities.

nitrate and the need for a Peruvian vessel in the Iquitos trade, there appears to be an appreciable amount of Peruvian tonnage available for the run to the Plate to load wheat.

[Here follows a statistical discussion of wheat imports into Peru.]

HULL

EFFORTS TO SECURE COOPERATION OF THE PERUVIAN GOVERNMENT IN THE CONTROL OF FINANCIAL TRANSACTIONS INVOLVING THE AXIS

740.00112A European War 1939/25390

The Ambassador in Peru (Norweb) to the Secretary of State

No. 6076

LIMA, February 9, 1943.

[Received February 15.]

SIR: I have the honor to inform the Department of further developments pertaining to the cancellation of insurance written for Proclaimed List firms. The initiation of the Embassy's renewed activities in this phase of our economic warfare program was reported in despatch No. 5877 of January 18, 1943 (page No. 2).¹⁹ Indications are favorable that some degree of success will be achieved (thanks to the Department for the timely and indisputable intercepts) although, as usual, there is some hesitation and bickering.

The following developments may be of interest and value to the Department. Mr. Figari, Superintendent of Banks and also Supervisor of insurance companies, stated on February 6 that he had been informally advised that it is going to be necessary to terminate all insurance contracts with Japanese and Germans. He did not say "Proclaimed List firms". Apparently the full measures will not be applied to Peruvian cloaks. Dr. Gallagher,²⁰ in discussing the insurance matter with Mr. Figari on the same occasion, remarked that the greatest difficulty is in regard to life insurance contracts. A person who has been paying premiums on a policy for a number of years has an interest in the reserves of the company and his policy is a vested right. He could not easily see a legal basis for an order by the Peruvian Government to the insurance companies to terminate these contracts.

Insofar as merchandise was concerned, he pointed out that it might be the case that much of the merchandise in German and Japanese firms is still unpaid for and, therefore, the Peruvian suppliers have a vital interest in the unpaid merchandise being insured. It was pointed out that the United States has been at war for over fourteen

¹⁹ Not printed.

²⁰ Manuel Gallagher, official of the Peruvian Ministry of Finance.

months and that anyone who supplied merchandise to these firms during the last year should not have done so in view of the Peruvian laws prohibiting transactions with Germans and Japanese. He agreed to this statement as did Mr. Figari. The latter said that any merchandise which has been delivered during the last year was "mal vendido" and if it were burned up without insurance the seller would be "bien pagado".

The question then arose as to the effect on the insurance companies of terminating all these contracts at one blow. . . . The agreement at the termination of the conversation was that Mr. Gallagher was to call on the Minister of Finance ²¹ and discuss the various aspects of the problem with him and that Mr. Figari would determine from all of the insurance companies the amount of insurance involved, broken down into insurance of Japanese firms and insurance of German firms, and similarly broken down into life insurance, insurance on buildings and insurance on personal property.

It may be interesting to note that in the course of the conversation Mr. Gallagher stated that he considered the innumerable Japanese establishments in Lima a definite peril, that should Hirohito ²² send word to his subjects to set fire to their establishments at a certain time and date they would undoubtedly obey, and most of Lima would possibly be destroyed.

It was pointed out to the conferees that such an eventuality is the best possible argument for cancelling the insurance, including life insurance, since such a conflagration likely would produce a riot in which Japanese lives covered by insurance would be lost.

Further developments will be reported.

Respectfully yours,

For the Ambassador:

JULIAN GREENUP

Counselor for Economic Affairs

840.51 Frozen Credits/9398 : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, February 13, 1943—5 p. m.

168. Your A-556, February 3, and your 192, February 9.²³ It would appear that two problems are raised by the above communications:

1. Repatriation of private Peruvian bonds from Switzerland where the ultimate ownership of those bonds is not known.

2. Control over remittances to Switzerland where the ultimate beneficiaries are unknown.

²¹ Julio L. East.

²² Emperor of Japan.

²³ Neither printed.

The following considerations may be of assistance to you in dealing with these problems:

1. Under Resolution IV (b) of the Washington Conference,²⁴ each American republic is required to take appropriate action to prevent transactions in securities located outside the Western Hemisphere, which would benefit the Axis. In view of Axis looting in the occupied countries and the convenient channel provided by Switzerland to realize on such loot, it is believed that any transaction involving the repatriation of securities from Switzerland should be viewed with suspicion, particularly where payment for such securities would be made by remittances abroad. In this connection if the price for which securities are being repatriated is below recent market prices, this will lend credence to suspicions that the Axis may benefit. Consequently, it would be highly desirable for the Peruvian Government to prevent this transaction unless it obtains complete information concerning the ultimate beneficiaries.

2. With respect to remittances of Swiss francs for interest payments on bonds, the Peruvian Government, under Resolution II of the Washington Conference, should take all steps necessary to prevent undesirable interests from benefitting from such transfers. As you know, any such remittances from the United States to Switzerland must, in the absence of a special license, be remitted pursuant to General License 50,²⁵ which provides that any such transaction can be undertaken only pursuant to the direction of the Swiss Government or the Banque Nationale Suisse, and then only if no national of a blocked country other than Switzerland has an interest in the transfer. A Swiss corporation, 25 percent or more of whose stock is owned by a national of another blocked country, say Italy, is a national of Italy as well as of Switzerland and hence the transaction cannot be consummated under General License 50. Reports are required to be filed as to all transactions consummated under the general license. This permits scrutiny to determine whether the terms of the general license have been complied with. Further this Government would probably not grant special licenses for transfers not covered by General License 50 unless it first received full information as to the ultimate beneficiaries. This requirement would not be waived merely because a Swiss bank or corporation stated that it could not legally divulge the names of the ultimate beneficiaries and that it was impossible to trace the holders of bearer securities.

It is suggested that you bring the foregoing considerations to the attention of the appropriate Peruvian authorities to the end that: (a) the repatriation of the private Peruvian bonds will not be permitted unless there is absolute proof forthcoming as to the ultimate beneficial owners thereof. (In this connection, the obvious difficulties

²⁴ For text of the resolution, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942). For correspondence concerning this Conference, held at Washington, June 30–July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff.

²⁵ Board of Economic Warfare issuance.

in obtaining such proof make it desirable that the transaction be prevented altogether); and (b) that remittances to Switzerland for interest payments on Peruvian securities not be permitted unless appropriate assurances are first obtained either from the Swiss Government or the Banque Nationale Suisse that only Swiss interests will benefit.

Little information is available here as to the Societe Privee de Banque et de Gerance or the Swiss corporations, Sudamericaine Electricite, Zurich, and Suisse Americaine Electricite. From an intercept of two letters from Finapar,²⁶ Lugano, Switzerland, to Urfina, S.A., Uruguay, which letters enclosed letters from Motor Columbus, S.A., Baden, to the Swiss companies in question, however, it would appear that there is some connection between those companies and Finapar. Finapar is on the British Black List and our Confidential List as it is suspected of being Italian owned. Finapar has also apparently had correspondence with Dr. G. Brianchind of Lima, Peru, as appears from an intercept of January 15, 1941, concerning a shipment of electric meters from the factory in Switzerland via Italy and Lisbon to its ultimate destination (presumably the Lima Light & Power Company). The Department is requesting other Washington agencies and the Embassy in Bern to investigate the Swiss companies involved.

HULL

740.00112A European War 1939/25847

The Ambassador in Peru (Norweb) to the Secretary of State

No. 6144

LIMA, February 18, 1943.
[Received February 24.]

SIR: I have the honor to refer to the Embassy's Airgram No. A-536 of February 13, 1943 and to despatch No. 6003 of February 1, 1943²⁷ and No. 6076 of February 9, 1943 in which the Department was informed of developments in the Embassy's campaign to deprive Proclaimed List subjects of insurance protection.

We have now before us copies of letters addressed to the Superintendent of Banks from eight of the eleven insurance companies doing business in Peru. These letters convey official notification to the Government dependency having immediate jurisdiction over insurance companies of the cancellation, starting on February 12, of all policies in favor of Proclaimed List subjects and all Japanese whether listed or not.

²⁶ S. A. Di Partecipazioni in Aziende di Finanziaminto.

²⁷ Neither printed.

The eight companies which have so far reported their full compliance with this latest interpretation of laws No. 9586 and 9592 are:

Compañía de Seguros "La Fénix Peruana"—Fire.
 Compañía de Seguros "Rimac"—Fire and Life.
 Compañía Internacional de Seguros del Perú—Fire.
 Compañías Unidas de Seguros—Fire.
 Compañía de Seguros "La Nacional"—Fire.
 Compañía de Seguros "La Popular"—Fire.
 Compañía de Seguros "Italia"—Fire and Life.
 Compañía de Seguros Sobre la Vida "La Sudamericana"—Life.

The companies which have not yet declared their compliance with the above mentioned laws are:

Compañía de Seguros sobre la Vida "El Porvenir"—Life.
 Compañía Italo-Peruano de Seguros Generales—Fire and Life.
 Sun Life Assurance Company of Canada—Life.

Two of these companies write only life insurance, and one of them is a branch of a foreign company.

The Embassy is observing developments in this situation and will report them to the Department with such recommendation as may be indicated.

Respectfully yours,

For the Ambassador,
 JULIAN GREENUP
Counselor for Economic Affairs

840.51 Frozen Credits/9808

The Ambassador in Peru (Norweb) to the Secretary of State

No. 6305

LIMA, March 13, 1943.
 [Received March 20.]

SIR: I have the honor to refer to the Department's Airgram No. A-388 of January 27, 1943, 5:40 P.M.,²⁸ with reference to the manner in which remittances from Peru to Axis or Axis-occupied territory were being effected.

The above airgram was received February 3, 1943 and the following day the Superintendent of Banks issued Circular No. 319 directed to the banks in Peru, tightening the controls relating to remittances to Axis and Axis-occupied territory. The subsistence remittances which under the former regulations could be made to relatives (irrespective of nationality) in Axis countries of any person in Peru are, under the new regulations, permissible only to Peruvian citizens. The former provisions permitting remittances to Italy up to 200,000 lire per month are completely abrogated. The permissible subsistence remittances to Peruvians are only to be made in the future through the diplomatic

²⁸ Not printed.

representative of the power representing the interests of Peru in the place where the payment is to be made. The text in translation of the article dealing with this latter feature is as follows:

“(d) Upon the issuance of the ministerial authorization, the bank shall place the money at the disposition of the diplomatic representative who represents the interests of Peru in the place where the payment is to be made in order that said diplomatic agent may proceed to make the payment to the beneficiary.”

The manner in which this provision would operate was discussed with the Superintendent of Banks and with an officer of the Banco de Credito del Peru, which latter institution in the past has been the channel through which substantially all subsistence remittances to Europe were effected. It was suggested that it would be desirable for the remitting bank to place the funds at the disposition of the Swiss government and have this government notify its representative to make the payment. However, inquiry at the Banco de Credito on March 11 disclosed that two remittances under the new regulations have been made to Italy—one to Rome and one to Genoa. The bank stated that in the case of the Rome remittance it had instructed its correspondent in Switzerland to pay a certain quantity of Swiss francs to the Peruvian diplomatic representative in Vatican City for the benefit of the Peruvian beneficiary. In the case of the Genoa remittance, the instructions given the Swiss correspondent were similar with the exception that the funds were to be placed at the disposition of the Swiss diplomatic representative in Genoa, Italy.

On February 9, 1943, a memorandum was delivered to the Ministry of Finance, pointing out the serious concern of the government of the United States over the fact that official Axis funds in Peru, and particularly the cash funds reportedly turned over to the Spanish Embassy, have not been blocked, and also pointing out that the Government of the United States has requested the representing power to deposit the funds of the Axis nations in their hands in appropriate banks. The memorandum also suggested the desirability of effecting an arrangement whereby the Axis powers would pay for their representation expenses in Peru by depositing Swiss francs to the credit of the Peruvian Government in Switzerland, which francs could be used for Peruvian expenditures. No reply has been received to this memorandum, nor is any information in the possession of the Embassy as to any steps having been taken by the Peruvian Government along either of the above suggested lines.

With reference to the Department's suggestion that the United States might be interested in purchasing Swiss francs, an investigation has revealed that no substantial quantity is available in Peru. The commercial banks on December 31, 1942 held Swiss francs in the

sum of 484,834 and the Central Reserve Bank 202,061. Those of the Central Reserve Bank belong to the Peruvian Government and are used by it to meet its representational expenditures. Those held by the commercial banks actually belong to individuals in Peru, since the banks themselves are prohibited by law from owning foreign currencies. Should the increasing stringency of remitting francs or of otherwise using them result in substantial sums becoming available, the Department will be promptly advised.

Respectfully yours,

For the Ambassador
JULIAN GREENUP
Counselor for Economic Affairs

840.51 Frozen Credits/9438

The Secretary of State to the Ambassador in Peru (Norweb)

No. 2206

WASHINGTON, March 13, 1943.

SIR: For your information and for that of the appropriate members of your staff, there is herewith transmitted a memorandum²⁹ entitled "Analysis of Peruvian Control Measures in the Light of the Resolutions Adopted at the Inter-American Conference on Systems of Economic and Financial Control". As the title indicates, the memorandum represents a study of the extent to which the Peruvian laws, decrees and regulations governing undesirable financial and commercial transactions comply with the requirements of the resolutions adopted by the Inter-American Conference on Systems of Economic and Financial Control. The study was compiled on the basis of the information available to the Department and it is designed to serve as a guide in Washington as well as to point out certain deficiencies in the local controls which should be considered by you and your staff with a view toward discussions with the appropriate authorities of the Peruvian Government. Similar studies with respect to the other American republics have already been compiled or are in the process of completion.

While the evolution leading to the adoption of the laws presently in force in Peru has been slow, in general, Peru has adopted legislation which provides a satisfactory basis for the implementation of the aforementioned resolutions. Of great importance throughout has been the excellent cooperation between the Embassy and the Peruvian Government. At least until recently, the main weakness in the Peruvian controls has been a failure vigorously to administer the laws in effect. It would appear from recent despatches, however, that the Embassy's efforts toward securing a more effective administration

²⁹ Not printed.

of the controls are bearing fruit and that the Peruvian authorities are now pursuing a policy which, if carried to completion, may well lead to the complete elimination from the economic life of Peru of all persons whose activities are deemed inimical to hemispheric defense. It is hoped that this policy will be continued and will be applied with equal vigor to undesirable persons of Peruvian citizenship as well as to those of enemy nationality.

In view of the recent developments in the administration of the Peruvian controls, it is suggested that a reclassification of the Peruvian Proclaimed List be undertaken in accordance with the principles set forth in the circular instruction of December 17, 1942,³⁰ which suggests certain classifications of persons on the Proclaimed List. With respect to delisting firms from the Proclaimed List, the Department is generally in accord with the procedure outlined in despatch no. 5877 of January 18, 1943,³¹ in which it is suggested that firms adopt new names while the former names remain on the list. Care should be taken, however, to insure that the old names, and whatever good will may attach to them will not be used as a means of permitting Axis interests to regain their lost power in the future. In either case, however, a statement that this Government is prepared to delist business enterprises when their transfer to desirable persons is accomplished or their undesirable elements are removed, may, it is suggested, prove an added inducement for the effective administration of the Peruvian laws.

The memorandum transmitted herewith was prepared prior to the receipt of despatch no. 5877 of January 18, 1943, and despatch no. 6050 of February 5, 1943,³¹ each of which shows improvements in particular phases of the economic control program. No attempt has been made to revise the memorandum by reason of these recent developments and it should, of course, be read with that in mind.

It is requested that, after you have had an opportunity to examine the enclosed memorandum, you advise the Department as to any sections or statements of the analysis with which you are not in agreement. However, if you are in agreement, you are authorized, in your discretion, to inform the appropriate Peruvian authorities of the deficiencies in their control system and to suggest remedial measures.

Very truly yours,

For the Secretary of State
DEAN ACHESON

³⁰ Not printed.

³¹ Neither printed.

740.00113 European War 1939/844

The Ambassador in Peru (Norweb) to the Secretary of State

[Extract]

No. 6546

LIMA, April 12, 1943.

[Received April 21.]

SIR: Referring to the Embassy's telegram No. 515 of April 11, 1 p. m.,³² I have the honor to enclose herewith a copy and translation of the Supreme Decree of April 10, 1943,³³ setting a time limit to the period in which Axis business enterprises may be nationalized, and stipulating that all Axis agricultural, industrial, commercial, as well as all other kinds of businesses referred to in Article 2 of Law 9586 which are not transferred to Peruvians in accordance with the provisions of laws 9586 and 9592 before May 31, 1943, will be expropriated by the State.

The new decree extends the principle of expropriation to real estate occupied by business establishments which were exempted from such proceedings in the previous laws and regulations.

Finance Minister East and Dr. Gerardo Balbuena (President of the Chamber of Deputies and author of the decree of April 10 here referred to) quoted President Prado as having declared expropriation activities would begin promptly on June 1 and would be concluded rapidly.

According to the decree, the details of transfer to Peruvians will be arranged in due course after expropriation. This procedure was specified for the purpose of terminating Axis economic activities immediately after May 31.

Another innovation of the decree places administration after expropriation, and pending final transfer, under the official dependencies, such as the Banco Industrial, Banco Agrícola, Banco Minero, Caja de Seguro Social, etc., or under private organizations, already existing or to be created; thus eliminating the delay formerly experienced in endeavoring to effect transfer to Peruvians without prior expropriation. It should also diminish the collusion with enemy proprietors which so retarded nationalization under the old system.

The original draft of this decree cited the reasons for its promulgation, but they were omitted in the finally published text, presumably to avoid criticism. Among them was a concrete statement to the effect that the application of laws 9586 and 9592 (by the Superintendency of Economy) had failed to permit rapid and full realization of the Government's declared policy of intercontinental solidarity in the present emergency.

³² Not printed.

³³ Enclosure not printed.

Pertinent aspects of the difficulties encountered in recent months and of the evolution of the present decree will be of interest to the Department:

The Superintendency of Economy was unsuccessful in curbing Axis business activities to the desired degree . . . Very important were the deficiencies of the existing powers. For instance, there was no clear authority to expropriate the real estate occupied by business entities.

Respectfully yours,

R. HENRY NORWEB

840.51 Frozen Credits/10568

The Ambassador in Peru (Norweb) to the Secretary of State

No. 6931

LIMA, May 25, 1943.

[Received June 1.]

SIR: I have the honor to refer to Despatch No. 6771 of May 8, 1943,³⁴ reporting proposed new regulations of the Superintendent of Banks, designed to render more effective the Peruvian control of international financial transactions.

A copy of the new regulations which are contained in Circular No. 329 of the Superintendent of Banks, dated May 24, 1943, together with a translation thereof and of the covering letter from the Ministry of Finance, dated May 24, 1943, are enclosed.³⁵ It will be noted from the covering letter that Circular No. 329 is designed to bring the Peruvian banking controls into closer harmony with the recommendations of the Washington Conference on Systems of Financial and Economic Control. It is of interest to note in the Circular itself that transactions are forbidden with persons included in the "black list." It is understood from the Superintendent of Banks that this term is meant to refer to the Proclaimed List of Certain Blocked Nationals. It will also be observed in Section (c) of Article 2 that drafts for remittances to foreign countries must be issued to the order of the beneficiary. This provision was included in an effort to avoid the common practice of buying bank drafts payable to the order of the purchaser who can then endorse it to anyone's order and thereby circumvent the local controls. It is hoped under Article 3 to secure some character of assurance from neutral countries such as Argentina, Switzerland and others that financial transactions effected with those nations will not benefit the Axis.

As reported in a series of despatches, the last being No. 6910 of May 22,³⁴ discussions are presently being carried on with the Swiss repre-

³⁴ Not printed.

³⁵ Enclosures not printed.

sentatives in an effort to work out a system of control for that country. It is stated by the Superintendent of Banks that it will be necessary to arrange some system for remittances to Argentina since the volume of transactions with that country is rather large, but that in all probability it will not be necessary to deal with Spain, Portugal and Sweden since the transactions with those countries are insignificant.

It is considered that Chile, Ecuador and other nations that have severed diplomatic relations with the Axis are not included in Article 3, dealing with neutral nations, but in Article 2.

Article 6 of the enclosed Circular vests the Superintendent of Banks with broad powers to stop any financial transaction. This was considered desirable in order to deal with firms who are discovered to be acting as cloaks or otherwise engaging in inimical transactions but are not included in the Proclaimed List.

Respectfully yours,

For the Ambassador:

JULIAN GREENUP

Counselor for Economic Affairs

740.00113 E. W. 1939/909 : Airgram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, May 26, 1943—6:15 p. m.

A-685. Your A-858 of May 8.³⁷ Department notes that the statement is made in the airgram under reference that "a law threatens all Axis nationals with the expropriation of property after May 31". It would appear, however, from your despatch 6594 [6546] of April 12 and despatch 6691 of April 29³⁸ that at the outset, at least, expropriation will be applied only to the more important Axis enterprises. The Department feels that expropriation of *all* Axis and Proclaimed List businesses may not be necessary to achieve the desired ends of control or eliminating undesirable elements, and, in fact, such a result would constitute an extension of the Washington Recommendations. It is suggested that you postpone urging the Peruvian authorities to expropriate enterprises other than those Proclaimed List firms which are clearly Axis controlled or dominated pending the receipt by you of a circular instruction now being prepared in the Department relating to the Proclaimed List program in Brazil.

In the interim, if you have not already done so, a classification of listed firms in accordance with the circular instruction of December 17, 1942³⁹ should be helpful in determining whether you wish to urge the Peruvian Government to expropriate any given concern.

³⁷ Not printed.

³⁸ Latter not printed.

³⁹ Circular instruction not printed.

The Department has noted, with satisfaction, the increased anti-Axis activities on the part of the Peruvian authorities since the closing days of 1942.

HULL

740.00113 European War 1939/908

The Ambassador in Peru (Norweb) to the Secretary of State

No. 7001

LIMA, June 2, 1943.

[Received June 12.]

SIR: I have the honor to refer to the Embassy's Despatch No. 6546 of April 12, 1943 reporting promulgation of the Supreme Decree of April 10, 1943 which provided that all properties of Proclaimed List nationals not transferred to Peruvians in accordance with the provisions of Laws 9586 and 9592 by May 31, 1943 will be expropriated by the State.

A Decree dated May 20, 1943, containing the Regulations of the above mentioned Decree, has now been published, and copies in English and Spanish are forwarded to the Department as enclosures to this Despatch.⁴⁰

As May 31, 1943 has come and gone without any noticeable change in the tempo of expropriation proceedings it is evident that we were justified in awaiting developments rather than attempting to make premature judgements with regard to the probable course of events. The first line of Article 1 of the Regulations which reads: "A partir del 1° de junio del presente año se procederá a la expropiación", has apparently been understood by the administrative officers of the Peruvian Government to mean that expropriation proceedings will begin, not occur, on that date. This interpretation suits the Embassy because it applies emergency legislation in an orderly and judicious manner which is desirable in itself to say nothing of the fact that neither the Peruvian Government nor the Embassy is adequately equipped to handle transfers in any greater volume than they have heretofore been presented.

In view of our previous uncertainty in this respect, the Embassy some time ago decided that proof of the legitimacy of transfers of businesses, which were already coming to our attention and which were expected greatly to increase, would require not only extremely careful scrutiny, but also in each case some kind of commitment by the Superintendency of Economy itself. Accordingly the Embassy devised a sort of questionnaire intended to cover all of the essential points of any transaction and asked the Superintendency to submit its usual re-

⁴⁰ Enclosures not printed.

ports of transfers coming under its jurisdiction in the form outlined. The Superintendency was not only agreeable to the suggestion which was put into immediate effect but went further by employing a young Peruvian of good family recently graduated from Cornell to take charge of such reporting and in general to act as liaison officer between the Superintendency and the Embassy in connection with the transfer of Axis properties to Peruvian nationals. This cooperation is working out very well and the Embassy feels that substantially all of the pertinent information available to the Superintendency is being properly embodied in its reports. A copy of the questionnaire referred to above which forms the basis for such reports is forwarded herewith as an enclosure ⁴¹ for the Department's information and for suggestions regarding amplification of its scope if this should seem desirable. The information submitted with Despatches Nos. 6792 and 6784 both of May 10, 1943 ⁴² represent examples of the Superintendency's replies to the first questionnaires answered by that office.

There are still a number of points which the Embassy is trying to clear up with the Peruvian Government—such for instance as the application of the Decree of April 10 to nationalized Peruvians of Axis origin. The Embassy has not taken an uncompromising stand on this question, but has preferred to judge each case on its own merits so far as the phraseology of Peruvian legislation and the seriousness of the Embassy's case against the individual would permit. In this respect there has been a certain amount of confusion as the Peruvian Government has not pursued a uniform policy. There is before us as we write an official document issued by the Superintendency of Economy approving the freezing of payments of purchase money to naturalized Japanese, and another official ruling by the Superintendency of Banks declaring that payments to the said individual should not be frozen because as a naturalized Peruvian citizen he is not amenable to the freezing regulations in force. There have, in fact, been a number of cases before us in which Axis subjects who have become Peruvian citizens by naturalization have been considered by one Department of the Government as full-fledged Peruvians while being regarded by another dependency of the Government as susceptible to the provisions of legislation directed against Axis individuals or companies.

There are several possible solutions to these questions, and the Embassy is keeping in close touch with the Superintendency of Economy in an endeavor to bring about the greatest degree of uniformity in expropriation procedures while seeing that serious offenders are given their just deserts.

There is for instance Law 9810 of March 22, 1943 which provides that the Peruvian Government will cancel the naturalization papers

⁴¹ Not printed.

⁴² Neither printed.

of any subjects of German, Italian, and Japanese origin who are found guilty of subversive activities or spreading propaganda. Many cases of such activities have occurred during the last two months, but as far as is known the provisions of this law have not yet been invoked in any of them. However, it is available and could conceivably be of use.

Similarly, on May 24 the Superintendency of Banks published its Circular No. 329 forbidding transactions with persons included in the "Black List"—i.e., the Proclaimed List. This circular makes no reference to the nationality of such persons although the Superintendency of Banks has always maintained that Peruvian citizens included in the Proclaimed List were not subject to the financial controls exercised over listed non-Peruvians. This circular is of so recent a date that no confirmation of the manner in which it will be administered is available. From past experience we feel justified in supposing that in practice "Black Listed" Peruvians will not be subjected to the same financial controls as foreigners, but the ruling is official and may be of use.

The Embassy has heard that a number of voluntary transfers are in negotiation but is without specific information to forward at this time. It is expected that a considerable volume of such data will become available soon.

Respectfully yours,

For the Ambassador:

JULIAN GREENUP

Counselor for Economic Affairs

701.6223/25 : Airgram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, October 14, 1943—9:45 a. m.

A-1078. Your confidential despatch no. 7676, August 21, 1943⁴³ for the Secretary and the Under Secretary. The Department appreciates the delicacy of the situation and the necessity for extreme caution in any action taken in this matter in order that the source of information may be protected. Nevertheless, the Department views with concern any possibility that attempts may be made to repatriate German funds, particularly if such funds are in the form of gold or other readily marketable values belonging to a Proclaimed List firm and which would be exported through diplomatic channels. It is presumed that every effort is being made to verify the reports in the Embassy's despatch. The Department requests that it be promptly and fully advised of all information and developments in this matter.

⁴³ Not printed; it concerned the use of the Spanish diplomatic pouch in financial transactions.

The Department submits for the Embassy's consideration certain courses of action which may prove efficacious. First, if the existence of such gold is verified and it can be traced to be the property of the Agencia Martima Kosmos, a German enterprise on the Proclaimed List, the Peruvian authorities might be approached and discreetly advised that the Department has informed the Embassy that this company was believed to have had certain gold which it had placed in the custody of the German mission in Lima and which on the departure of that mission may have been turned over to the Spanish Embassy.⁴⁴ Therefore, this gold should in reality be considered as an asset of an Axis enterprise and subject to local controls. Accordingly the Peruvian authorities might wish to conduct an investigation and take appropriate action. If in this approach the Embassy would receive the cooperation of the Peruvian authorities and the Spanish Ambassador were questioned about the matter, it is possible that even if he claimed ignorance he would probably be sufficiently apprehensive as not to attempt to export the gold.

A second course of action might be undertaken under Resolution VI of the Washington Conference. In the event the position were taken that whatever property was turned over to the Spanish Ambassador by the departing German diplomats is regarded as official property, efforts could be made to refute this position by an indication as to the origin of these funds and reference could be made to Resolution VI of the Washington Conference which specifies that all Axis assets, including *cash*, should be effectively blocked. Diplomatic and official cash assets are *not* exempt (see Department's airgram 388 of January 27, 1943 and circular airgram of February 2, 1943).⁴⁵

The Department requests the Embassy's comments on the foregoing possible courses of action and information as to other courses which the Embassy may be considering. Obviously, the course of action to be followed would be predicated on the type of information which was uncovered. However, if attempts are made to export the reported gold and immediate action is necessary, the Embassy is authorized to take such action as it deems appropriate in the circumstances to prevent its exportation, which would be inimical to the interests of the United Nations.

In connection with Axis assets, the Department has no record of having received information concerning the steps which have been taken by the Peruvian Government in regard to the blocking of Axis funds delivered to the Spanish Embassy. The last available reference is the penultimate paragraph of despatch 6305 of March 13, 1943. Please advise Department of subsequent developments on this topic.

⁴⁴ In his despatch No. 7676, August 21, the Ambassador transmitted evidence to prove the truth of this report.

⁴⁵ Neither printed.

It is requested that your report on the foregoing subjects contain information as to the source of funds used by the Spanish Embassy to defray the costs of representing German and other Axis interests in Peru.

HULL

THE TAXATION QUESTION IN THE NEGOTIATION OF AN OVER-ALL METALS AND MINERALS AGREEMENT BETWEEN THE UNITED STATES AND PERU

811.20 Defense (M) Peru/499b : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, January 29, 1943—10 p. m.

104. The Department has received informally from the Board of Economic Warfare a copy of the proposed Over-all Metals and Minerals Agreement with the Government of Peru of which numbered paragraph 3 reads as follows: "The Government of the Republic of Peru shall continue to administer its tax policies in such a manner as to stimulate the production and free flow of strategic metals and minerals, and agrees that any additional or increased taxes, fees, charges or levies which may be imposed during the term hereof with respect to such metals and minerals or the producers thereof shall not prevent the major portion of the increases in prices provided herein from accruing to such producers. It specifically agrees furthermore that no increases in export taxes or fees enacted during the term of this agreement will apply to such metals and minerals."

While the Department assumes that the Embassy is represented in all discussions on this agreement, it would appreciate your opinion on this provision.

HULL

811.20 Defense (M) Peru/498 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, January 31, 1943—8 a. m.

[Received 1:34 p. m.]

154. Reference Department's telegram no. 104, January 29, 10 p. m., regarding paragraph 3 of the proposed Over-all Metals and Minerals Agreement. A representative of the Embassy has been present in all recent discussions. I personally have taken the matter up with the Minister of Finance ⁴⁶ on the last two occasions.

Article 3 is regarded as desirable from the viewpoint of the United States but the Finance Minister has informed me it is unacceptable to

⁴⁶ Julio L. East.

Peru since he cannot make any commitment about future tax policy. However the Minister is studying the matter and has promised a memorandum next week.

Full details are reported in despatch no. 5,985 of January 30.⁴⁷

NORWEB

811.20 Defense (M) Peru/601 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, March 17, 1943—11 p. m.

[Received March 18—10:08 p. m.]

379. To Rosenthal,⁴⁸ Board of Economic Warfare from Thompson: ⁴⁹ Attention Bateman: ⁵⁰ Overall agreement with Peruvian Government has been held up on account of Peru's unwillingness to agree to freeze present export taxes during the life of the agreement. Numerous conversations between Ambassador Norweb and Finance Minister East have been directed towards persuading Peruvian Government to include clause 3 in a form acceptable to us. The Peruvian Government insists on leaving the door open to put increased taxes on these minerals on the assumption that we need the minerals so badly that we may be induced or compelled to absorb such increases. Our position has been that since we are guaranteeing the Peruvian producers a floor price and a definite amount for a fixed period of time we should not have to contend with possible fluctuations in production or in prices due to such uncertain tax situation.

As the Peruvian contention appears to be shaping up if we sign this agreement we will be putting a floor under prices paid by us for Peruvian metals, but will leave the door wide open for eventual raises forced upon us by increased taxation. We take the stand that this is entirely out of line with our position as the sole buyer and the only market for such Peruvian metals and minerals.

As a result of the delay the mineral buyers here have ceased their purchases claiming that they can make no contract without knowing the ultimate cost of the metal which they will eventually sell to us. This situation has begun to back up towards the producers and they are now beginning to feel the effects of what amounts to a buyers strike; they have become alarmed and have come to us several times for suggestions and advice. They have offered to take the matter up with Peruvian Congressmen or direct with President Prado, or both. We have invariably told them that these were matters entirely between

⁴⁷ Incorrect reference; probably No. 5643, December 22, 1942, not printed.

⁴⁸ Morris Rosenthal, Assistant Director, Office of Imports, Board of Economic Warfare.

⁴⁹ John Thompson, special representative of B.E.W.

⁵⁰ Alan M. Bateman, official of the Office of Imports, B.E.W.

the Peruvian Government and the Peruvian people and that we were interested only in getting these essential materials in the same manner as we had been obtaining them from other Latin American countries.

Mr. Fernandini, head of the Mining Association, called on me yesterday with the suggestion that perhaps article 3 of the proposed contract was too strong for the Peruvian Government to accept and would I, or could I, suggest the essence of this article in more acceptable terms. In view of the fact we are interested only in the taxes which affect exports I proposed to him the following new terms on article 3: "The Government of Peru agrees not to cause any increases in present export taxes on said metals and minerals and producers thereof during the life of this agreement." I realize this is a very diluted version of article 3, but in view of the above do you wish us to sign the agreement without the tax clause if the Peruvian Government should continue to insist upon its present stand or shall we hold off on the expectation that pressure from the mining groups here will force the Peruvian Government to agree to some form of tax clause acceptable to us? [Thompson.]

NORWEB

811.20 Defense(M) Peru/630 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, March 25, 1943—noon.

[Received 9:26 p. m.]

419. Reference is made to the Embassy's telegram 379, March 17, 11 p. m., from Thompson to Rosenthal regarding the Metals Reserve agreement. The Finance Minister yesterday inquired if any news had been received from Washington which we interpret as an additional indication he is rather uneasy and possibly is receding from his original firm stand against inclusion of the tax stabilization provision (article 3).

I am of the opinion that these protracted discussions could be ended or at least shortened by a communication from Washington to the effect that it seems impossible to conclude the agreement until the tax situation is clarified; and this recommendation is made because it is our understanding the present flow of minerals and metals from Peru is satisfactory and is not retarding the war effort.

It is felt that the presentation to the Minister of such a message concurrently with the pressure now being exerted on him by producers and exporters might possibly influence to accept some modified wording of article 3 similar to that given in telegram 379 which would accomplish the desired results.

NORWEB

811.20 Defense (M) Peru/601 : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, March 29, 1943—9 p. m.

379. For Thompson from Rosenthal, BEW. Your 379, March 17. We agree to necessity of obtaining assurance against an increase in export taxes and approve the policy you are following.

We prefer following modification of your suggested wording of Article III: "For the term of this agreement the Government of Peru agrees not to cause any increases in present export taxes on strategic metals and minerals. It also agrees not to impose any other taxes, fees or charges which would have the effect of reducing the incentive to strategic mineral production."

If you disagree with this change or if it is unacceptable please let us know. [Rosenthal.]

HULL

811.20 Defense (M) Peru/655 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, April 1, 1943—10 p. m.

[Received April 2—4:20 p. m.]

466. Reference Department's telegram number 379 March 29, 9 p. m. and 380, March 29, 10 p. m.⁵¹ Finance Minister states that the suggested text of article 3 in telegram 379 is considered even more drastic than article 3 as suggested in Department's circular telegram 104, January 29, 10 p. m., and that it would cause the Government considerable embarrassment with Congress.

He stated that in place of any article 3, he would prefer to write me a letter incorporating the text of article 3 as cited in telegram 104 above omitting the last sentence thereof about freezing export taxes. He asked me to inquire if this alternative procedure would be satisfactory to Metals Reserve.

In the event the Department and Board of Economic Warfare insist on retaining article 3 in some form or other, it is suggested that something similar to the following wording be considered:

"This agreement to continue in force so long as the Peruvian tax structure remains as it was on the date of signature of this agreement or during such period thereafter within a period of 12 months as may be considered mutually satisfactory to both Governments".

Either of these selected would seem to afford a measure of protection against excessive tax increases.

NORWEB

⁵¹ Latter not printed.

811.20 Defense (M) Peru/655 : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, April 15, 1943—11 a. m.

451. For Thompson from Rosenthal, BEW. Your 466, April 1, 10 p. m. Suggestion of the Finance Minister is not satisfactory, inasmuch as it might permit a substantial increase in export taxes unless very strictly interpreted.

We are sure that you realize and that it has been made clear to the Peruvians that we have little or nothing to gain from the conclusion of this over-all agreement if no provision is to be made against tax increases which would have an unfavorable effect upon production. There is little reason for continuing these negotiations if nothing can be done with respect to this matter.

Nevertheless, it will be considered satisfactory if a clause is included in the agreement incorporating in effect the Embassy's suggestion in its No. 466. We suggest the following wording: "If, during the term of this agreement, the taxes, levies, fees or other charges imposed by the Peruvian Government on the production or export of strategic metals and minerals should be changed from those existing on the date of this agreement, the agreement shall not continue in effect unless the Governments of Peru and of the United States shall then agree to its continuation for the full term."

Please take this up with the Peruvians and advise of their reaction to it. No agreement should be finally agreed to without further authorization. [Rosenthal.]

HULL

811.20 Defense (M) Peru/729 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, May 1, 1943—11 a. m.

[Received 1 p. m.]

623. Supplementing my telegram no. 601, April 28, 5 p. m.⁵² The Finance Minister has just informed me that President Prado does not consider the proposal acceptable in view of a conversation in which Duggan⁵³ is said to have promised to urge reconsideration of the article 3 matter. Since I have no other information in the above regard the Department's comments would be appreciated.

NORWEB

⁵² Not printed.⁵³ Laurence Duggan, Adviser on Political Relations. For correspondence on the trip of Vice President Wallace and Mr. Duggan to certain American Republics including Peru, see vol. v, pp. 55 ff.

811.20 Defense (M) Peru/729 : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, May 28, 1943—10 p. m.

617. From Rosenthal, BEW, for Thompson. Your 601, April 28, 5 p. m.⁵⁴ and 623 May 1, 11 a. m. We have discussed taxation clause with Duggan. He made no commitment to urge reconsideration of Article 3, merely informing the Peruvian officials that he would review the matter with us.

Mr. Chavez, Commercial Attaché of the Peruvian Embassy, has submitted to us the following proposed text for Article 3.

“Clause A—The Government of the Republic of Peru proposes to continue to administer its tax policy in such a manner as to stimulate the production and free flow of strategic metals and minerals and agrees that any additional or increased taxes, fees, charges, or levies which may be imposed during the term hereof with respect to such metals and minerals shall not prevent the major portion of the increase in prices provided herein from accruing to such producers.

Clause B—If during the term of this agreement the taxes, levies, fees, or other charges imposed by the Peruvian Government on the production or export of strategic metals and minerals should be changed against the conditions of Clause A, the agreement shall not continue in effect unless the Government of Peru and the United States shall agree to its continuation for the full term.”

We have submitted to Chavez a modification of this omitting words “continue to” and deleting all after “shall not” in Clause A substituting “shall not be of such a nature as to interfere with the accomplishment of that purpose”. No change in Clause B.

Chavez agreed to submit this proposal to Lima but objected to our substitution at end of Clause A. His position apparently was that his Government would wish to retain this implied recognition of their right to tax up to 49 percent of any increase in price and that they wanted the right to as “favorable” taxation as that allowed any other Latin American Government. He referred specifically to the Chilean Extraordinary Tax on copper which takes the first one and one-quarter cents per pound out of any increase up to two and one-half cents.

Our position, as explained to Chavez, is that our revision of his clause is the least restrictive yet proposed and that we do not wish it to contain a phrase which might limit the effect of the clear expression of intent. We would consider any increase in export tax a violation of that expression.

Any export tax is a direct deterrent to mineral production. Any increase or likelihood of increase, even though from a low level, can

⁵⁴ Not printed.

seriously curtail production and exploration to the prejudice of the war effort.

We do not intend article 3 to limit ability of Peruvian Government to obtain additional revenue if necessary by means of income or similar taxes which will not have an adverse effect on production.

We point out that the level of taxes in other countries should not be used for comparison. Conditions vary too greatly from country to country. Some countries, such as Mexico, have agreed to more rigid restrictions than we are asking of Peru. Others already had a restrictive tax structure. We could not ask them to reduce taxes nor are we asking Peru to do so.

While wishing to avoid comparisons, we did point out to Mr. Chavez certain special considerations regarding the Chilean Extraordinary Tax which had apparently been overlooked.

1. That tax is levied only against bar copper, which is not covered in our overall agreement with Chile.⁵⁵

2. It is applied only to Anaconda and Kennecott, both making good profits. Chagres and Nalgua which buy ores from small producers were specifically exempt. It could not have such an adverse effect on production as a tax applied against a marginal producer.

It is not clear whether negotiation of Article 3 has been finally transferred to Washington. If resumed in Lima please make our views clear to Peruvians and attempt to obtain inclusion of Article 3 as outlined above. We prefer this to any previous texts. We also prefer that negotiation of balance of agreement be concluded in Lima.

Your present instructions with respect to copper ores and concentrates are to offer a price based on 11.75 cents New York. The price in the original Chilean Overall was calculated from the same base. For your information, in August 1942 the Chileans were granted an increase of 5 percent in the case of copper concentrates and 10 percent in the case of copper ores. Another identical increase of 5 percent and 10 percent of the original price has been authorized subject to the discretion of our representatives in Chile.

We may grant the first Chilean increase to Hochschild and Grace in Peru on renewal of their contracts now being negotiated. If you are unable to obtain acceptance in the overall of the price based on 11.75 cents please send your recommendations as to how we might grant an improved price without diverting copper ores and concentrates from Cerro de Pasco and possibly without having to pay the improved price to Northern Peru Mining Company. In this connection you may wish to point out to the Peruvians that the prices

⁵⁵ For correspondence on the acquiring of Chilean copper, see section under Chile entitled "Negotiations to procure for the United States strategic materials from Chile . . .", vol. v, pp. 826 ff.

in the overall are floor prices which we may exceed in special cases such as Hochschild and Grace, when circumstances warrant.

Embassy's cable 601 asks whether negotiations can proceed without further reference to Washington. Original instructions were to submit to us final draft before signing. In view of the time elapsed since the discussions were begun and possibility of resultant misunderstandings, we prefer that those instructions be adhered to. Please keep us informed of progress in negotiations. [Rosenthal.]

HULL

811.20 Defense (M) Peru/826 : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, June 19, 1943—8 p. m.

704. Reference your telegram 862, June 16.⁵⁶ If the Peruvian Government is disposed to accept clauses A and B as proposed by BEW in telegram 617, May 28, you are instructed to proceed with negotiations outlined as follows:

1. It is felt that the period to be covered by the agreement should not extend beyond July 1, 1944. This restriction may be used to impress upon the Peruvian authorities the importance to them of winding up the negotiations quickly.

2. BEW is sending Dowden,⁵⁷ in the next couple days, a revised "Exhibit A" listing the metals and minerals and prices to be covered by the Agreement.

3. Dowden has received instructions in Department's 617 of May 28 and will receive amendatory instructions which you may follow in your negotiations with the Peruvian authorities.

HULL

811.20 Defense (M) Peru/841 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, June 22, 1943—6 p. m.
[Received June 23—1:20 a. m.]

892. Reference Department's telegram 704, June 19, 8 p. m. Finance Minister yesterday accepted clauses A and B including modification of clause A as proposed by BEW in telegram 617 of May 28, 10 p. m.

The Minister stated he accepted clauses A and B of article 3 unconditionally including their publication as a part of the agreement if

⁵⁶ Not printed.

⁵⁷ Ethelbert Dowden, B.E.W. representative in Peru.

Washington definitely insists upon such publication. He would prefer, however, and requested that I submit his suggestion that clauses A and B of article 3 be included in a separate exchange of letters.

There would be no objection on the part of the Embassy to treating article 3 in this way providing there is no objection in Washington. However, as stated above, the Minister has not stipulated this as a condition but rather as a decided preference as was done in the case of Bolivia.⁵⁸

The Minister stated further that he is now desirous of proceeding at once with the agreement. Consequently I wish to present below the text as we understand it here for confirmation.

It will be noted that the original article 4 pertaining to living and working conditions has been omitted at Finance Minister's request as reported in the Embassy's telegram 1172 of November 11, 5 p. m.⁵⁹ Consequently the text of the agreement would consist of the paragraphs given in the Embassy's telegram 893 of June 22, 7 p. m.⁶⁰ plus exhibit A listing the minerals and metals and prices.

Please telegraph confirmation of the articles quoted in telegram 893 or necessary modifications; and also exhibit A which we presume will include the paragraph clarifying F.O.B. prices.

NORWEB.

811.20 Defense (M) Peru/843 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, June 22, 1943—7 p. m.

[Received June 23—4:30 a. m.]

893. Refer to Embassy's 892, June 22, 6 p. m.

1. "Preamble pursuant to Resolution II, the Third Meeting of the Ministers of Foreign Affairs of the American Republics at Rio de Janeiro,⁶¹ the Governments of the Republic of Peru and the United States of America undertook, in common with the Governments of the other American Republics, to cooperate with each other to the utmost possible degrees in the mobilization of their economic resources with the special objective of increasing the production and the flow of the strategic materials essential for the defense of the Hemisphere. Re-

⁵⁸ For correspondence on procurement of strategic materials from Bolivia by the United States, see *Foreign Relations*, 1941, vol. VI, pp. 452 ff., and *ibid.*, 1942, vol. V, pp. 536 ff.

⁵⁹ Not printed.

⁶⁰ *Infra.*

⁶¹ For text of Resolution, see Department of State *Bulletin*, February 7, 1942, p. 119; for correspondence on the Foreign Ministers Meeting, see *Foreign Relations*, 1942, vol. V, pp. 6 ff.

affirming these principles and prompted by the mutual friendship and esteem of the peoples of the Republic of Peru and the United States of America, the Government of the Republic of Peru and the Metals Reserve Company, an agency of the Government of the United States of America, now agree that effective the date of execution of this agreement and until June 30, 1944: Agreement 1. Metals Reserve Company shall purchase the metals and minerals of Peruvian origin listed in exhibit 'A' hereof,⁶³ at the minimum prices and terms therein specified, which may be offered to it from such sources as it selects provided that it shall not be obligated to make any purchases from producers or suppliers who are on the Proclaimed List of blocked nationals of either the Government for [of] the Republic of Peru or the Government of the United States. The maximum quantity of any metal or mineral that the Metals Reserve Company is obligated to purchase hereunder shall not exceed 125 per cent of the production of such metal or mineral for the year 1942; provided, however, but [that] the Metals Reserve Company shall have the option to accept under the terms of this agreement any amount in excess of such maximum quantities as may be available for export from Peru.

2. The Government of the Republic of Peru shall, by adequate decrees implemented by necessary regulation, limit the exportation of all strategic metals and minerals to (1) the United States, (2) the British Empire and (3) the other American Republics which have systems of export control acceptable to the Governments of the Republic of Peru and of the United States. In no event shall exports be made to persons who are on the Proclaimed List of blocked nationals of either Government. The Government of the Republic of Peru shall use its best efforts to expedite the deliveries to the United States of metals and minerals purchased under this agreement; and will permit deliveries of these materials to other American Republics only after consultation and agreement between the appropriate representatives of the two Governments of the Republic of Peru and of the United States.

3. The two clauses as in Department's No. 617 of May 28, 10 p. m.

4. For the purposes of this agreement strategic metals and minerals shall be those listed in exhibit 'A' and such other metals and minerals as are from time to time deemed by the Government of the United States to be strategic."

NORWEB

[The agreement as set forth in the telegram printed *supra* and schedule A as indicated in airgram No. A-799, with a slight change of phraseology, were formally accepted by Peru on July 14, 1943. With despatch No. 7419, July 20 (not printed) the Ambassador enclosed a copy of the accord which was signed that day (811.20 Defense(M) Peru/913).]

⁶³ Not printed. Schedule A included copper, lead, zinc, tungsten, molybdenum, antimony, and mica. The agreed version of this schedule was conveyed to the Embassy by the Department in airgram No. A-799, July 1, 1943.

AGREEMENT BETWEEN THE UNITED STATES AND PERU FOR THE
ESTABLISHMENT OF THE INTER-AMERICAN COOPERATIVE FOOD
PRODUCTION SERVICE IN PERU

[For text of agreement, effected by exchange of notes signed at Lima May 19 and 20, 1943, see Department of State Executive Agreement Series No. 385, or 57 Stat. (pt. 2) 1405.]

DISCUSSIONS OF THE PERUVIAN FOREIGN DEBT

823.51/1475

*The Under Secretary of State (Welles) to the Ambassador in Peru
(Norweb)*

WASHINGTON, April 1, 1943.

DEAR HARRY: It is now almost one year since David Dasso was in Washington.⁶⁴ While we are agreed that the results of that trip have been satisfactory, the perennial Peruvian debt question is apparently no nearer a solution than it was a year ago. You are, of course, thoroughly familiar with all of the details of this situation but I would like to recall the statement in the press release of April 23, 1942 concerning Dasso's visit which refers to the debt: "He has also stated that he is engaged in discussions with the Foreign Bondholders Protective Council, Inc. looking towards a resumption of payments on the Peruvian dollar debt".⁶⁵ Despite this assurance, practically no progress has been made.

I think it is now time for a very frank talk with President Prado.⁶⁶ I think you should tell him that the continued failure of the Peruvian Government to live up to its promises and to make any reasonable offer to the bondholders cannot help but adversely affect the friendly and cooperative relationship which has been so painstakingly built up between our two countries and which we all, of course, will do everything to maintain. It seems to me that the question can be put up to the President in a very firm way in view of the relatively good financial position in which the Peruvian Government now finds itself.

With my kindest personal regards,

Sincerely yours,

SUMNER WELLES

⁶⁴ At the time of his visit Dasso was Minister of Finance and Commerce. For an account of his negotiations, see Department of State *Bulletin*, April 25, 1942, pp. 365-368.

⁶⁵ *Ibid.*, p. 366.

⁶⁶ Manuel Prado Ugarteche, President of Peru.

823.51/1477

*The Ambassador in Peru (Norweb) to the Under Secretary of State
(Welles)*

LIMA, April 6, 1943.

DEAR SUMNER: All of us who have been working on the major problems of Peruvian-American relations are in complete accord with the views set forth in your letter of April first regarding the continued Peruvian default on the service of its dollar debt. I will take an early opportunity to discuss the question again with President Prado, but I would like to have your comment upon subsequent paragraphs of this letter. It would be especially helpful if your reply could reach me during the time that Mr. Wallace and Larry Duggan will be in Lima—from April eleventh to fourteenth.⁶⁷

There are, I believe, three contributing factors of importance which affect this debt settlement. Peru has a notoriously bad reputation for meeting its financial obligations. The dollar loans still are associated with the Leguía⁶⁸ régime and, although the feeling against that régime no longer is acute, a resumption of service on the bonds will be unpopular from the point of view of internal politics. Finally, we ourselves have failed to definitely tie up our substantial financial and economic aid to Peru with a specific commitment concerning service on the dollar bonds.

Cooperation in our economic warfare program and in continental defense have been my two major preoccupations in Peru. Next in importance has come the settlement of various debts and claims. I have discussed the dollar bonds, the postal debt, and various private claims repeatedly with the President and with Cabinet Ministers. Julian Greenup⁶⁹ says that conversations by Ambassadors and other officers of the Embassy with Peruvian officials have been going on for seven years to his knowledge, without obtaining any solution. . . . We must convince them that we mean business.

The record will show that when David Dasso visited Washington a year ago the Embassy strongly recommended that the extension of financial and economic aid on our part be made contingent upon action by Peru to meet its obligations. It was pointed out that Dasso, as a practical business man, would expect and agree to such dealing. There are many other Peruvian business men who admit that Peru should be forced to make an arrangement, that Peruvians will not like paying but that they will do so and will respect us for insisting

⁶⁷ For correspondence on the trip of Vice President Henry A. Wallace and Laurence Duggan, Adviser on Political Relations, to certain of the American Republics, see vol. v, pp. 55 ff.

⁶⁸ Augusto Leguía y Salcedo, President of Peru from 1919 to 1930.

⁶⁹ Counselor for Economic Affairs at the Embassy in Peru.

upon payment. The commitment made by Dasso in Washington with respect to the debt was a very tenuous one. Something might have come of it, even so, had he been able to continue in office as Minister of Finance.

When I was in Washington last November, I discussed the dollar debt question in the Department, suggesting that a representative of the Foreign Bondholders Protective Council be sent to Lima to follow up the Dasso commitment. My impression was that the Department still did not wish to consider the question as one between the two Governments. I am convinced that our Government is going to have to enter the picture in some way if we are to obtain payment from Peru.

You may wish to read my despatch no. 6471, dated April 1, 1943,⁷⁰ regarding Warren Pierson's⁷¹ recent conversations in Lima about the dollar bonds. Warren told David Dasso and Julio East⁷² that some definite action on the dollar debt probably would have to be taken before the Export-Import Bank could do any extensive financing of projects in Peru. These projects are of special interest to President Prado. Dasso and East immediately agreed, stated that action should have been taken long ago, and East promised prompt attention to the matter.

The way has been paved for another approach to President Prado. My idea is to review the entire situation with Larry Duggan when he reaches Lima. I then will talk with the President. I can refer to Pierson's conversations with Dasso and East and to the definite promises made by the two latter. Then, I believe, I should suggest that President Prado have an official request made for a representative of the Foreign Bondholders Protective Council to come to Lima for the purpose of reaching an immediate agreement for the resumption of service on the dollar debt. Perhaps the visit of the Council's representative could be postponed for a short time provided the Peruvian Government immediately will make a reasonable offer to the bondholders. All of this presupposes that the Department is going to participate in the negotiations at least to the extent of directly arranging for the officials of the Peruvian Government and of the Council to get together and to keep at it until a settlement has been reached.

With cordial personal regards,

Sincerely yours,

HARRY NORWEB

⁷⁰ Not printed.

⁷¹ President of the Export-Import Bank.

⁷² Peruvian Minister of Finance.

823.51/1477

*The Under Secretary of State (Welles) to the Ambassador in Peru
(Norweb)*

WASHINGTON, April 16, 1943.

DEAR HARRY: Your letter of April 6 only reached me on April 14. I am therefore unable to send you any reply to your observations concerning the Peruvian foreign debt question to reach you during Mr. Wallace's visit.

It seems to me that we must give a firm indication to President Prado that (1) the degree to which the United States can cooperate financially with Peru is dependent upon the existence in the United States of a public opinion favoring our present inter-American policy; (2) that the maintenance of this state of public opinion depends in part upon the treatment accorded the legitimate interests of our citizens in the other American republics; and (3) that this Government considers the aspirations of American citizens to a fair settlement of the indebtedness of the Peruvian Government to them as a very definite legitimate interest.

It seems to me that it would be a serious mistake for us to tie any specific foreign debt settlement to any specific measure of economic cooperation. For a variety of reasons, including that of political expediency, I think we wish to avoid any semblance of a clear cut bargain. On the other hand, we are prepared to make it clear that the whole trend of our economic policy toward Peru is by no means independent of and is, in fact, highly sensitive to the trend of Peru's policy toward the interests of our citizens.

I realize that it may be difficult for a business man like Dasso fully to understand the type of policy which I have outlined. Nevertheless it is the only one which we as a Government can afford in the long run to follow.

As I believe you have been informed, the Foreign Bondholders Protective Council recently addressed a communication to the Peruvian Finance Minister which will, I hope, furnish an opportunity for a constructive reopening of this matter.

Believe me

Sincerely yours,

SUMNER WELLES

823.51/1491

The Ambassador in Peru (Norweb) to the Secretary of State

No. 7198

LIMA, June 24, 1943.

[Received June 29.]

SIR: I have the honor to refer to the Department's Instruction No. 2532 of June 17, 1943,⁷³ enclosing a copy of a translation of a letter dated May 5, 1943, from the Peruvian Finance Minister to the President of the Foreign Bondholders Protective Council; and requesting the Embassy's comment, together with the latest available information on the likelihood of Peru's making some early adjustment of its defaulted dollar indebtedness.

The statements of the Finance Minister in his letter of May 5 convey the same information given to me by the Minister at about the same date. Although the subject has come up in subsequent conversations, the Minister has not added anything new to his previous statements that the declining revenues in certain chapters of the Budget, together with the dislocations, or at least uncertainty, in foreign trade render it impossible for the Peruvian Government immediately to arrive at any concrete proposal for renewing service on the dollar debt. He has reiterated, however, that Peru recognizes the importance of restoring in the United States its reputation of meeting its obligation promptly. He has stated also that the Government continues to give attention to this protracted topic and plans to submit proposals at the earliest opportunity.

Respectfully yours,

R. HENRY NORWEB

823.51/1491 : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, August 5, 1943—10 p. m.

881. From the Under Secretary. The failure of the Peruvian authorities to fulfil their assurances regarding the dollar funded debt is viewed by the Department with increasing concern. The Embassy is aware of the repeated assurances given by Peruvian officials, including Finance Minister Dasso in April 1942, that some action in this matter would soon be taken by the Peruvian Government. Those assurances have been almost completely ignored. The continuance of such a Peruvian attitude will have a cumulative effect in weakening the favorable public opinion in this country upon which financial and economic collaboration by the United States with Peru is in the last analysis based.

⁷³ Not printed.

Please call upon President Prado and stress the importance, for the reasons stated, of positive action by the Peruvian Government to adjust these obligations on an equitable basis. It is noted that the financial position of Peru is stronger than in April 1942 when Dasso's assurances were given. [Welles.]

HULL

823.51/1495 : Telegram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, August 5, 1943—9 p. m.
[Received August 7—3:50 a. m.]

1066. Reference Department's telegram No. 881, August 5, 10 p. m. For the Under Secretary. The subject has been discussed recently with the President and the Finance Minister. Possibly the President's radio statement, reported in my despatch No. 7409 of July 20⁷⁵ and repeated in his annual message to Congress, was a result. In paraphrase he said: "We have totally cancelled many foreign obligations, no foreign loans have been floated and the settlement of the foreign debt is under study depending on the goodwill of our creditors to reach an honest and equitable agreement. No part of the credit opened 3 years ago by the Export-Import Bank for \$25,000,000 has been used".⁷⁶

On the basis of this statement, I recently requested that I be provided with some offer for settlement to take with me on my contemplated trip to Washington in September (see my letter to Mr. Bonsal dated August 2).⁷⁵ The President informed me he would discuss the subject with the Finance Minister who stated early this week that he is giving attention to the matter and hopes to have something for me to present to Washington for discussion. He also mentioned that the Council of Ministers had given him authority immediately to effect complete payment of the entire postal debt without further temporizing with partial payments in monthly or quarterly installments. Although there is no budgetal provision for payment of the postal debt he proposes to sell public works bonds in an amount sufficient to effect the full payment.⁷⁷

Accordingly there seems to be some sound basis for belief that the President and associated Peruvian authorities are giving serious thought to the problem of regularizing the financial position of the Government. Consequently strengthened by your telegram under

⁷⁵ Not printed.

⁷⁶ See *Foreign Relations*, 1940, vol. v, pp. 1135 ff.

⁷⁷ In despatch No. 7665, August 20, 1943, the Ambassador reported that the Minister contemplated selling the bonds on the open market in sufficient amount to cover the agreed postal debt to the United States of \$308,000 (811.71223/57).

acknowledgment I shall be in a position with some prospects of progress again to confer with the President on the question of Peru's financial obligations to the United States.

NORWEB

823.51/1496

The Ambassador in Peru (Norweb) to the Secretary of State

No. 7537

LIMA, August 6, 1943.

[Received August 14.]

SIR: With reference to the Embassy's despatch No. 7409 of July 20, 1943,⁷⁸ transmitting comments by the President of Peru regarding settlement of the Foreign Debt, I have the honor to transmit as enclosure no. 1, a statement just received informally from the Ministry of Finance and Commerce as to Peru's External Funded Debt as of December 31, 1942, totalling S/ 578,204,111.46.

Except for the Guano Loan⁷⁹ on which interest and amortization charges are being paid, all of these obligations are now in default, although, according to the statement of the President of Peru quoted in the despatch just cited, the settlement of the foreign debt is "under study", which statement the President reiterated in his annual message to Congress delivered on July 28, 1943.

Respectfully yours,

For the Ambassador:

JULIAN GREENUP

Counselor for Economic Affairs

[Enclosure]

PERUVIAN EXTERNAL FUNDED DEBT
DECEMBER 31, 1942

DOLLAR DEBT

Amount Outstanding
Dollars *Soles*

1. Tobacco loan, 7%, 1927-1959. (Republic of Peru—Secured 7% Sinking Fund Gold Bonds of 1927) Amount issued \$15,- 000,000 in bearer bonds of \$500 and \$1000.	8,728,000	31,173,884.88
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⁷⁸ Not printed.

⁷⁹ See item 5 of the enclosure printed below.

	<i>Amount Outstanding</i>	
	<i>Dollars</i>	<i>Soles</i>
2. National Loan First Series 6%, 1927-1960. (Republic of Peru, 6% External Sinking Fund Gold Bonds.) Amount issued \$50,000,000, in bearer bonds of \$500 and \$1000.	48,367,000	172,752,897.57
3. National Loan, Second Series 6%, 1928-1961. (Peruvian National Loan 6% External Sinking Fund Bonds) Amount issued \$25,000,000 in bonds of \$500 and \$1000.	24,452,500	87,337,238.78
Total dollar debt	51,547,500	291,264,021.23

STERLING DEBT

	<i>Sterling</i>	<i>Soles</i>
4. Provincial Council of Lima loan of 1911, 5% First Mortgage Bonds. Amount issued £600,000 in bearer bonds of £100.	483,900	8,411,115.93
5. Peruvian Government, 7-1½% (reduced to 4%) Guano Loan 1922-1948. Amount issued £1,250,000 in bearer bonds of £100.	706,300	12,276,857.16
6. Peruvian National Loan 6% External Sinking Fund Bond—Second Series. Amount issued £2,000,000 in bearer bonds of £100, £500 and £1,000.	1,958,200	34,037,295.33
	3,148,400	54,725,268.42
Plus dollar debt		291,264,021.23
Interest arrears on external funded debt in dollars. \$57,270,129.88		204,552,295.59
Interest arrears on external funded debt in sterling £1,589,151.17.0		27,662,526.22
		578,204,111.46

823.51/1500

The Ambassador in Peru (Norweb) to the Secretary of State

No. 7880

LIMA, September 20, 1943.

[Received September 27.]

SIR: In order that the Department be familiar with the Peruvian Government's current intentions with reference to service on the dollar debt, I have the honor to supplement my despatch No. 7826, dated September 11, 1943,⁸⁰ with the following remarks a day or two ago by Finance Minister East.

Mr. East again mentioned the President had requested him to investigate thoroughly. He stated also he would endeavor to have something available for me to carry to the United States on my coming trip. Failing that, he will try to forward a report to me in Washington in order to permit the fullest possible discussion of the subject at this time.

He did, however, express a preference for dealing with the problem more comprehensively and submitting a more complete statement toward the end of the year. This proposal, of course, represents yet another effort to prolong negotiations.

Should other developments become available before my departure, the Department will be informed accordingly.

Respectfully yours,

R. HENRY NORWEB

823.51/1505 : Airgram

The Chargé in Peru (Patterson) to the Secretary of State

LIMA, November 12, 1943—5 p. m.

[Received November 22—4 p. m.]

A-1537. Department's telegram 1188, October 26, 9 p. m.⁸¹ In the interval pending Mr. Robert E. McCormick's⁸² arrival in Lima, the exact date of which has not been disclosed to the Embassy, his prospective visit has been informally indicated to the Peruvian agencies including Senator Dasso,⁸³ Finance Minister East, former Finance Minister David Dasso, and a Foreign Office official.

The reaction of the personalities hitherto approached is not conducive to a belief that in the absence of something more forceful than oral persuasion, the Peruvian Government is likely to propose, or to assent to a proposition conducive to, settlement of bonded indebted-

⁸⁰ Despatch not printed.⁸¹ Not printed.⁸² Representative of the Foreign Bondholders Protective Council.⁸³ Andres Dasso, brother of the former Finance Minister.

ness in a sense acceptable to the Foreign Bondholders Protective Council.

For instance, Minister East . . . observed that at the time of Mr. McCormick's expected visit he would probably be extremely busy preparing his Ministry's budget for presentation to the Peruvian Congress, the ordinary session of which terminates on November 27. Upon my remarking that this very time seemed opportune for a visit of a representative of the Bondholders Council and that Minister East would be in a position to add to his budget a subdivision for settlement of the outstanding dollar bonds, Minister East smiled and made no further observation.

Again, I had a talk at some length with Mr. David Dasso at a social reunion, at which time I mentioned his visit to the United States in the spring of 1942, and the confidence apparently placed at Washington in assurances given by him at that time on matters of interest to the Peruvian and United States Governments including outstanding bonds of United States citizens. To this Mr. Dasso replied that he regretted that a beginning had not been made toward settlement of this bonded indebtedness but at the same time remarked that he considered the bondholders, then represented by Mr. White,⁸⁴ ill-advised in having summarily turned down a proposal made by Mr. Dasso to begin interest payments at the rate of 1% per annum. On my remarking that this seemed a very small beginning and inquiring if he had proposed anything for amortization of the principal, Mr. Dasso replied negatively, stating that while his suggestion was indeed modest it recorded a willingness of the Peruvian Government to recognize the existence of the outstanding dollar debt. Continuing, Mr. Dasso stated that the Peruvian sense of obligation toward the debt had been somewhat impaired by a variety of facts or alleged facts including rumors of illicit bonuses paid by the representatives of the banks negotiating the loans in Peru . . .; the receipt by Peru of a figure well under the original market price of the bonds; the transfer of bonds into other than the hands of the original holders including bank interests in New York which had bought them up cheaply.

From observations such as those outlined above it seems apparent that influential Peruvians who probably are in a position to interpret the attitude of the Peruvian Government do not believe in the existence of a strong sense of responsibility on the part of the authorities in this country to effect a serious approach to the debt problem at the present time. However, it is admitted that Peruvian finances are now in an excellent state. Despite this fact there is evidently little interest in liquidating, or even beginning to settle, an indebtedness which was contracted under a regime now defunct and discredited.

⁸⁴ Francis White.

It has moreover been remarked that should approach toward settlement of the problem be made, it is hardly conceivable that the Peruvians would consent to more favorable terms than those under which Mexican indebtedness to United States interests is understood to have been assumed by a syndicate of American bankers⁸⁵ at figures whereby the outstanding principal debt is stated to have been scaled down by $\frac{5}{6}$ of its original total. At the same time, it is admitted that too advantageous a settlement from the Peruvian standpoint may well impair this country's future credit.

PATTERSON

823.51/1505 : Telegram

The Secretary of State to the Chargé in Peru (Patterson)

WASHINGTON, December 6, 1943—8 p. m.

1335. The Department refers to its telegram 1188 of October 26, 9 p. m.,⁸⁶ and to your airgram A-1537, November 12, concerning the defaulted Peruvian dollar-bonded indebtedness.

Mr. McCormick found it necessary to return urgently to the United States from Rio de Janeiro and it has been decided that in his stead Mr. Lee Orton, who was Mr. McCormick's co-negotiator at Rio de Janeiro, will visit La Paz and Lima in connection with the dollar-bonded indebtedness of Bolivia and Peru. Mr. Orton is now in La Paz and is scheduled to arrive at Lima December 9. Tentatively he intends to leave Lima on December 15. If, however, the occasion seems propitious, he will either remain longer or he and/or Mr. McCormick will return.

The Department attaches first importance to the early adjustment of the Peruvian dollar-bonded indebtedness now long in default. So strongly does the Department feel on the subject that I today requested the Peruvian Ambassador⁸⁷ to call on me in this connection. I handed him the following memorandum :

"Strong feeling exists in both governmental and private circles in the United States that service should be resumed promptly on the Peruvian dollar bond issues which have been in default, both as to principal and interest since 1931. On April 23, 1942, His Excellency Señor David Dasso, Minister of Finance and Commerce of Peru, while visiting the United States, stated :

"The Peruvian Government wishes to inform Your Excellency's Government that it has entered into discussions with the Foreign Bondholders Protective Council, Incorporated, looking toward the early resumption of payments on the

⁸⁵ See the *New York Times*, December 18, 1942, p. 48, and December 19, 1942, p. 29.

⁸⁶ Not printed.

⁸⁷ Manuel de Freyre y Santander.

Peruvian dollar debt. These discussions with regard to the scale and amount of payments will be continued after my return to Lima and subsequent announcement will be made by my Government.'

"Subsequent to Señor Dasso's visit (now 19 months past) several conversations on this subject have been held by Ambassador Norweb and members of his staff with Peruvian officials in Lima and there has been correspondence on the subject between the Foreign Bondholders Protective Council, Incorporated, and the Peruvian Government. There is marked disappointment that no adjustment has resulted, particularly when bondholders had been encouraged that a settlement was impending and when it was public knowledge that the financial condition of Peru lent itself to a resumption of service.

"Certainly the financial situation of Peru has improved markedly (even in comparison with the situation at the time of Señor Dasso's visit to the United States in April 1942). Bondholders in the United States are, of course, aware of this favorable fiscal position and of the foreign exchange reserves which have resulted from extensive purchases of strategic materials which have been and are now being made by the United States in Peru. It is felt that the time is propitious for an early settlement of these defaulted bond issues and such action by Peru would be considered as another forward step in the reciprocal cooperation which characterizes inter-American relations. Failure to resume active negotiations looking to the resumption of service on these dollar bonds would not be understood in the United States and it would react unfavorably not only in financial circles, but also among the large body of holders of these defaulted bonds who are scattered widely throughout the population of the United States.

"The Department has just been informed by the Foreign Bondholders Protective Council, Incorporated, that Mr. Lee Orton, Representative of the Council, who has just concluded in Brazil on behalf of the Council a successful negotiation for the settlement of the entire Brazilian dollar bond indebtedness,⁸⁸ is planning to visit Peru on December 9, 1943. It is earnestly hoped that His Excellency the Minister of Finance will find it possible to receive Mr. Orton at that time and utilize this visit to resume active negotiations looking to an early permanent adjustment."

I told the Ambassador that I did not mean to be blunt in referring to this question, but that speaking in a friendly tone and manner, I felt obliged to say that Mr. Orton, representing the Foreign Bondholders Protective Council, had visited Brazil in an endeavor to effect a debt settlement; that after the attention of Brazil was brought fully to bear on the complicated and long overdue debt situation and the great benefit which would accrue to both countries upon adjustment, a full settlement of the debt situation had been worked out which placed the situation on a business basis in a manner beneficial to both countries. I told the Ambassador that Mr. Orton would be in Lima on December 9 for a similar discussion with the Peruvian Government. It was my earnest hope that the Peruvian Government might see its way clear likewise to bring about a complete adjustment

⁸⁸ See vol. v, pp. 765 ff.

of the debt matter and in that connection emphasized the mutual benefit which would accrue to both countries and especially to Peru. The Ambassador said he was really glad to have me call attention to this matter; that he had not long since taken the matter up with his Government and had urged that Peru from the standpoint of its own interest should not neglect these debt matters. The Ambassador seemed wholly sympathetic throughout and said that he would transmit the message to his Government.

You may in your discretion make available to the appropriate authorities a copy of the memorandum which I handed to the Ambassador.

Please render Mr. Orton all appropriate assistance and keep in close touch with the Department by telegraph.

HULL

823.51/1520

The Secretary of State to the Chargé in Peru (Patterson)

No. 2973

WASHINGTON, December 23, 1943.

The Secretary of State refers to the Department's telegram No. 1383, December 15, 1943, 10 p. m.,⁸⁹ and quotes, for the information of the Embassy, the telegram sent on December 17 by the Foreign Bondholders Protective Council, Incorporated, to the Peruvian Minister of Finance:

"We are much gratified to learn from Mr. Orton that Your Excellency expects to be prepared to discuss the question of the Peruvian dollar bonds in January. We shall be glad to begin such discussions whenever Your Excellency informs us that the Peruvian Government wishes to do so. In the meantime we should be grateful if we could be informed of the proposals which will serve as a basis for discussion. Greetings."

823.51/1520

The Chief of the Financial Division (Livesey) to the President of the Foreign Bondholders Protective Council, Inc. (Munro)

WASHINGTON, December 23, 1943.

MY DEAR MR. MUNRO: I have received your letter of December 17, 1943,⁹⁰ and the Department is informing the American Embassy at Lima of the text of your telegram of December 17 to the Peruvian Minister of Finance.⁹¹

⁸⁹ Not printed.

⁹⁰ Letter not printed.

⁹¹ See *supra*.

The Embassy's report of the Minister's conversation with Mr. Orton indicates that the Minister at that time preferred to have conversations open without a prior statement by the Peruvian Government of the terms it might contemplate. The Department will, of course, be interested to be kept informed of any correspondence to which your telegram may give rise.

Sincerely yours,

FREDERICK LIVESY

**AID BY THE UNITED STATES IN THE RESTORATION OF THE NATIONAL
LIBRARY OF PERU**

823.428/15a : Airgram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, June 5, 1943—7:10 p. m.

A-716. You are requested to present officially the following statement to the Peruvian Government:

"The destruction of the National Library of Peru and the library of the Lima Geographical Society by the recent disastrous fire is a tragic loss, not only to Peru but to American culture as a whole, for an injury to the cultural resources of any one American republic affects cultural development throughout the continent.

The people of the United States sympathize deeply with the Peruvian people in the loss they have sustained and are eager to participate to the extent of their ability in the rehabilitation of these two great Peruvian centers of learning. Individuals, private institutions, and the government wish to join forces to provide all possible appropriate assistance, including technical information as may be desired, and such materials as books, maps, catalog cards, and reproductions of Peruvian manuscripts in the collections of this country.

In order to organize this cooperation most effectively, the Secretary of State has appointed a national 'Committee to Aid the National Library of Peru and the Geographical Society of Lima'. The following persons, whose names and affiliations indicate the wide and representative basis of the committee, have accepted membership:

Professor Herbert E. Bolton, Historian and Acting Director of the Bancroft Library, University of California.

Mr. Donald Coney, Director, University of Texas Library.

Mr. Archer M. Huntington, President, Hispanic Society of America.

Dr. Waldo G. Leland, Director, American Council of Learned Societies.

Dr. Archibald MacLeish, Librarian of Congress.

Dr. Philip Ainsworth Means, Archaeologist and Historian.

Mr. Keyes D. Metcalf, President, American Library Association and Director of Harvard University Library.

Mr. W. W. Norton, President, Council on Books in Wartime.

Mr. R. Henry Norweb, United States Ambassador to Peru.

Mr. Wallace K. Harrison, Assistant Coordinator of Inter-American Affairs.

Mr. Charles A. Thomson, Chief, Division of Cultural Relations, State Department.

Mr. John K. Wright, Director, American Geographical Society.

Dr. Lawrence Wroth, Director, John Carter Brown Library.

Dr. Lewis Hanke of the Hispanic Foundation of the Library of Congress will serve as Secretary of the Committee.

Through this Committee, the United States will endeavor to show in a concrete manner the interest felt by the people of this country in Peruvian civilization and their desire to cooperate in the work that will be undertaken in order that the City of the Kings may continue to occupy the important position in American culture that she has held ever since the establishment of the University of San Marcos in the sixteenth century."

It has been suggested that Dr. Lewis Hanke be sent to Peru soon to confer with government officials, Peruvian cultural leaders and the mission to ascertain how this committee can most effectively assist. The opinion of the mission is requested on this subject.

In order to arrange for simultaneous release in this country, please telegraph exact time of presentation of the message to the President.⁹²

HULL

823.428/42a : Telegram

The Secretary of State to the Ambassador in Peru (Norweb)

WASHINGTON, August 3, 1943.

869. At meeting on July 28 Committee to Aid National Library of Peru passed resolution to send to Lima three persons to discuss with Basadre⁹³ and other Peruvian authorities details of official and private United States aid in restoration of Library. Following persons selected: Keyes Metcalf, Director Harvard College Library and retiring President American Library Association; Wilmarth S. Lewis of Yale University, and Chairman of the Librarian's Council of Library of Congress; and Lewis Hanke, Director, Hispanic Foundation, Library of Congress and Secretary of Committee. Group plans to leave Washington about August 9 and while in Lima would expect to work closely with Vaillant⁹⁴ in dealings with Peruvians. Will carry specific offers of aid and cooperation authorized by Committee and members of delegation will be ready to offer wide range of technical advice on library organization as requested by Basadre and associates. Please inform Dr. Basadre.

HULL

⁹² Manuel Prado Ugarteche.

⁹³ Jorge Basadre, Librarian of the Peruvian National Library.

⁹⁴ George C. Vaillant, Senior Cultural Relations Officer at the Embassy in Peru.

823.428/49 : Airgram

The Ambassador in Peru (Norweb) to the Secretary of State

LIMA, August 23, 1943—12 noon.

[Received August 27—4 p. m.]

A-1255. Referring to Department's telegram no. 869 of August 3, Messrs. Keyes Metcalf, Wilmarth Lewis and Lewis Hanke, representing the Committee in Aid of the National Library of Peru, arrived in Lima August 11 and left August 22.

They conferred with individuals and groups interested in the Library and the Geographical Society, interviewing President Prado, the Ministers of Foreign Affairs and Education;⁹⁵ the new librarian Dr. Basadre, the librarians of the lesser libraries, Dr. Morales Macedo, the reorganizer of the Geographical Society, and others.

Their recommendations will take the following main trends: One Peruvian architect and three Peruvian librarians to go north for short orientation trips; three U.S. librarians and three U.S. assistants to come south to aid in library school in Lima; organization of books in the U.S. to be checked according to Dr. Basadre's needs; amassing of U.S. Government publications, amassing of photostats and microfilms of Peruvian MS in U.S. collections; special gifts to be considered later.

The Committee were a great success technically, intellectually and socially, and the interest taken in their visit was broader than the immediate importance of their mission. Their tact and understanding seemed to increase cooperation among various groups that have experienced difficulty in pulling together. Immediate reaction indicated that aid to the Library is one of the most important moves the U.S. can make to strengthen our cultural relations with Peru. It will be concrete evidence of our good will in this field of cooperation.

NORWEB

823.428/53

The Secretary of State to the Chargé in Peru (Patterson)

No. 2812

WASHINGTON, October 16, 1943.

The Secretary of State refers to the Embassy's despatch no. 7768 of September 2, 1943⁹⁶ concerning the visit to Lima of three emissaries of the United States Committee to Aid the National Library of Peru and the Geographical Society of Lima.

⁹⁵ Alfredo Solf y Muro and Enrique Lareza, respectively.

⁹⁶ Not printed.

Reference is made to No. II ⁹⁷ of the specific recommendations for assistance to the library which is outlined on page three of the Embassy's above-mentioned despatch. The Officer in Charge is informed that \$20,000 has been allocated to the National Library of Peru under the "Books for Latin America Project" which is being administered for the Department by the American Library Association. Orders for United States publications can be placed by Dr. Basadre against this allocation through the Washington office of the American Library Association.

It is understood that Dr. Basadre will select the publications to be ordered in view of the fact that he is familiar with the needs of the library. Book lists will be sent to Dr. Basadre to provide bibliographical aids in selecting the publications. If the lists which are being sent are not sufficient, further information will be furnished upon request.

In addition, the Department has been informed that a complete set of the catalogs of United States Government publications has already been presented to Dr. Basadre. The Department will endeavor to obtain whatever official publications are selected from these lists.

It is believed that the Officer in Charge will wish to make an official announcement of this gift of books to the Peruvian government.

⁹⁷ Recommendation II refers to the spending of \$20,000 through the American Library Association for books.

URUGUAY

DISCUSSIONS BETWEEN THE UNITED STATES AND URUGUAY CONCERNING PETROLEUM

833.6363/210 : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, January 28, 1943—10 p. m.

79. For Clover¹ from Thornburg.² Embassy's A-15 of January 12.³ At the same time that your A-15, January 12, was receiving consideration by the Essential Requirements Committee⁴ various officers of the Department have had repeated conferences with Foreign Minister Guani and Dr. Giorgi⁵ on the same subject. The requests for additional oil supplies presented by the latter evidently were not coordinated with the application which you have presented in your A-15 in accordance with Department's circular of July 25 as amended September 3.⁶

The Department wishes to give the Foreign Minister every possible and practicable assurance of assistance in securing essential oil supplies but wishes to avoid raising hopes beyond a point within which actual performance will be possible. For your information highest petroleum supply executives from London are conferring with corresponding officials here now and there is every reason to expect a further reduction in tanker tonnage available for other than direct military operations. You will be informed soon concerning outcome of these conferences.

Your A-15 appears to be a reliable statement of essential requirements determined in accordance with pool principles and Department is willing to approve the increases requested although the increase for transportation in Montevideo is decidedly questionable in view of similar situation in every other country including the United States.

The request presented here by the Foreign Minister and Dr. Giorgi appears to disregard entirely the pool procedure for determining essential requirements and merely to revert to earlier representations

¹ Philip Petrie Clover, petroleum expert and Attaché at Montevideo, Buenos Aires, Santiago, and Asunción.

² Max W. Thornburg, Consultant on Petroleum Matters in the Department of State.

³ Not printed.

⁴ Inter-departmental Committee which appraised requests for critical materials.

⁵ Luis Giorgi, representative of the Rio Negro hydroelectric project.

⁶ Neither printed.

that Uruguay must have 62 percent of 1941 requirements. They ask specifically for full 1941 monthly quantities for the following:

Central railroad	5300 tons
Other railroads	650 tons
National and Artigas Frigorificos	1815 tons
Power plant	5000 tons
Agriculture	1280 tons
Domestic kerosene	1908 tons
Total	15853 tons
	per month

or approximately 190000 tons per year for these uses.

This quantity is requested in addition to supplies now being allocated for war essentials and for 40 percent quota for other uses and would put total country on approximately a 62 percent basis instead of 40 percent exclusive of present war essentials.

In addition to being impossible of fulfillment with available tankers this request appears to depart from uniform procedure adopted to secure equal treatment.

In order to make most appropriate reply to Foreign Minister taking all considerations into account you are requested to give your comments to reach Washington not later than Monday morning February 1 with particular reference to following points:

First. Does your A-15 represent results of analysis based upon Department's circulars of July 25 and Sept. 3 which outlines the procedure Department wishes to be followed? It is understood that additional requests may be made as occasion demands following same procedure.

Second. Is it correct as reported by Dr. Giorgi to Department that your analysis takes into account reductions in fuel oil resulting from conversions to electricity but fails to take into account corresponding increases in power plant requirements?

Third. Approximately what total saving would result if total requirements were supplied as finished products and all local refining suspended?

Fourth. Foreign Minister and Dr. Giorgi state their information was secured from Vegh Garzon⁷ and Terra Arocena.⁸ Was this information developed in collaboration with or reviewed by local pool committee or by yourself?

Fifth. Any other comments you consider relevant.

[Thornburg]
HULL

⁷ General Manager of Ancap (Administracion Nacional de Combustibles, Alcohol, y Portland).

⁸ Interventor, named to replace the Directors of Ancap.

833.6363/206 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, January 20, 1943—3 p. m.

[Received 5:02 p. m.]

153. For Thornburg from Clover. Department's 79 of January 28. Experience since the formation of the Embassy's original estimate of Uruguay's essential requirements detailed in Montevideo telegram 617 of July 23, 1942,⁹ has confirmed that 62% of 1941 is substantially correct inclusive of all war essential activities and to this extent the Embassy agrees with the contention of Guani and Giorgi that this quantity should be supplied.

Montevideo telegram 640 of July 31, 1942, in reply to Department's telegram 462 of July 29, 1942,¹⁰ recommended that any attempt to reclassify any industries as war essential be deferred until after some months of experience with 62% rationed in accordance with the decree of July 28, 1942, and stated that the Rationing Committee was told to request reclassifications when the need developed. Unfortunately for Uruguay, the Department could not accept the 62% basis.

On September 11, 1942, in note 195 the Embassy informed the Uruguayan Government that the basic ration available was 40% of the 1941 consumption and that this made it advisable that the Rationing Committee should recommend to the Embassy without delay their determination of the needs of the war essential industries as a category to be supplied outside of the Uruguayan economy. This was not done, but the Embassy did not press the reclassifications because local rationing measures were not enforced to the extent necessary to hold consumption within visible supplies and it appeared salutary to let a stock shortage develop without further Embassy interference and thus demonstrate unmistakably the fact that tanker tonnage really was limited. In December the inevitable happened, stocks became practically exhausted, and rationing is now realistic.

Therefore the Embassy initiated reclassification studies and made the recommendations included in the Embassy's A-15, January 12, 1943.⁹ These were based upon statistics where available and estimates of informed persons where no figures were obtainable and all evaluated by Clover on the basis that 40% was the civilian ration and only justifiable exceptions meaning war essential industry requirements would be allowed.

The Embassy recommends that extra allotments be limited to the amounts and categories named in the Embassy's A-15 and other cases already submitted with the understanding that additional war essential requests will be considered as the need is demonstrated.

⁹ Not printed.

¹⁰ Neither printed.

Questions in the Department's telegram 79, May 24, 9 a. m. [*January 28, 10 p. m.*],

First, yes;

Second, our analysis was based upon 1941 consumption plus individual needs in 1943 of war essential industries. We made it emphatically clear to the rationing committee that the 40% civilian quota was the quantity allocated by the military authorities who had conscripted all tankers and had no direct relation to the needs of the South American countries but was determined solely by what could be released from our direct war effort. For this reason increased power plant needs are not relevant.

Third, theoretically the refinery losses would be saved but the loss in flexibility might necessitate carrying greater stocks of finished products which would cancel part of the gain. Politically the shutting down of the refinery would be an unfortunate necessity which the Embassy would prefer to avoid.

Fourth, the local pool committee supports the efforts of the Uruguayan mission. The Embassy was not consulted.

Fifth, the Embassy supports fully the Uruguayan presentation of Uruguayan requirements but takes the position that the war requirements and not the Uruguayan necessities are the deciding factor.

Our A-15 and other individual cases already submitted have given as liberal an interpretation of war essential requirements as the Embassy feels justified in making, although other cases may arise later. [Clover.]

DAWSON

833.6363/206 : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, February 9, 1943—10 p. m.

108. Department's 79, January 28 and Embassy's 153, January 30. In a memorandum handed to Dr. Giorgi on February 3, 1943 concerning Uruguayan oil requirements, a copy of which has been sent you by air mail, the Department indicated that an additional quantity of oil totaling approximately 34,000 tons per year for essential uses has been made available to Uruguay. It was also indicated that detailed information concerning the additional requirements presented by Foreign Minister Guani and Dr. Giorgi for power plant fuel oil and domestic kerosene would be obtained from the committee in Uruguay in order that those amounts also may be taken into account.

The above-mentioned approximate total of 34,000 tons includes the 2,500 tons per month (30,000 per year), recommended in your A-15, January 12 ¹¹ and the 3,000 extra allotment which the local supply

¹¹ Not printed.

committee has already been instructed to supply Frigorifico Artigas (your telegram no. 3, January 2¹² and Department's 27, January 9¹³). The Supply Committee for Latin America has been instructed to make the 2,500 tons per month available to Uruguay.

The Department wishes you to consider the above-mentioned additional requirements, presented by Foreign Minister Guani and Dr. Giorgi, for power plant fuel oil and domestic kerosene, which were listed as 5,000 tons and 1,908 tons, respectively, in the Department's telegram under reference, as though they had been presented in accordance with the usual pool procedure, and telegraph your views for presentation to the Essential Requirements Committee. The Department also wishes similar consideration given to the request for additional supplies for the National Frigorifico, which had not previously been presented and which is included with Artigas in the Department's telegram under reference.

Please endeavor to ensure that the Uruguayan authorities concerned clearly understand the proper method for the presentation of any further requests, and reiterate that the basic pool formula continues to be 40 percent of 1941 civilian consumption plus approved essentials with deliveries contingent upon the vicissitudes of war. It is most important that Uruguay, as well as the other countries concerned, does not have the impression that it is receiving any fixed percentage (such as 62 percent) other than the basic 40 percent plus essentials.

HULL

833.6363/211 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, February 13, 1943—3 p. m.

[Received 6:13 p. m.]

211. Department's 108, February 9. Based on maintaining 40% plus essentials basis the Embassy recommends that the following extra monthly quantities be allotted: National Frigorificos 700 tons kerosene for farmers and laborers producing exports 1500 tons fuel oil for power plant 2000 tons National Frigorificos is exporting approximately 60% of their production; their 40% basic quota is 325 tons a month; we estimate their minimum to maintain exports is 1025 or 700 extra.

Kerosene requirement is based upon an examination of oil company distribution statistics by areas.

Fuel oil for power plant is our estimate based upon adding to 40%

¹² The reference is to telegram No. 3, January 2, from the Ambassador in Argentina, not printed.

¹³ Not printed.

of (1941) which is 2120 tons a month, a quantity sufficient to provide current for export industries which switched from fuel in 1941 to electricity in 1942 and certain other basic uses such as water supply and sewage pumps. The failure of the Argentine corn crop has cut off further supplies of this fuel which necessitates replacement at least temporarily by the quantity of fuel oil recommended.

DAWSON

833.6363/211 : Telegram

*The Acting Secretary of State to the Ambassador in Uruguay
(Dawson)*

WASHINGTON, February 26, 1943—9 p. m.

152. Your 211, February 13, 1943. The Supply Committee for Latin America will be instructed to make available to Uruguay an additional amount of 2,000 tons of fuel oil per month, which corresponds to the additional amount you recommended to meet the essential needs of the power plant, and also 700 tons per month for the National Frigorifico. With respect to the latter, however, the Essential Requirements Committee is of the opinion that supplies for both the National Frigorifico and Frigorifico Artigas should be regulated in accordance with any seasonal variation in their operations, and the Supply Committee for Latin America will be instructed to advise the local pool committee accordingly.

From the information now available, the Essential Requirements Committee does not consider that the supplying of kerosene for farmers and laborers is an essential requirement and therefore, in accordance with pool principles, an additional quantity will not be made available for that purpose.

You should inform the appropriate Uruguayan officials of the foregoing and explain that, in accordance with the memorandum handed to Dr. Giorgi on February 3, 1943¹⁴ the above-mentioned amounts to cover the needs of the power plant and the National Frigorifico, which have been ascertained to be essential requirements, will be made available to Uruguay in addition to the total amount indicated in that memorandum and in the Department's telegram no. 108 of February 9, 1943.

BERLE

¹⁴ Memorandum not printed.

833.6363/231 : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, June 23, 1943—7 p. m.

341. A conference was held in the Department on June 21 with representatives of the Petroleum Supply Committee for Latin America and of the Office of the Petroleum Administrator for War participating. The Supply Committee and the Petroleum Administrator's representative stressed the importance of obtaining a *modus vivendi* between the marketing companies and Ancap before the present agreement expires on June 30, 1943. This would give sufficient time to discuss the problem more fully with Ancap and with the Uruguayan authorities and obviate the necessity of the Committee's being confronted with what it considers a rather serious threat to the spirit and principles of the supply pool. The matter has been discussed in detail with Ambassador Dawson, who is now en route to Montevideo, and it is desired that he conduct the negotiations personally once he returns. However, owing to the fact that only a few days remain until the agreement expires, it may be necessary that preliminary discussions be carried on by you prior to the Ambassador's arrival. Therefore, (and depending on the outcome of the inquiries referred to in your 594 of June 17,¹⁵ and provided you consider it advisable) you are authorized to communicate informally to the appropriate Uruguayan authorities the following considerations, reporting fully to the Department by telegraph:

In accordance with its well known policy this Government has of course no desire or intention of interposing in any domestic matter such as the implementation of legislation governing the extension of Ancap's monopoly. At the same time in view of present world conditions the Department feels that this might not be an opportune time in either the general interest or that of Uruguay for any action which might have an adverse effect on the petroleum pool arrangement which, the Department believes, has operated in a manner advantageous to Uruguay. It may be pointed out in this connection that the Supply Committee was organized and functions with the voluntary participation of the various interests concerned including of course the petroleum companies and that a basic principle was that the companies' relative commercial positions would be frozen for the duration of the pool arrangement.

HULL

¹⁵ Not printed.

833.6363/233 : Telegram

The Chargé in Uruguay (Dwyre) to the Secretary of State

MONTEVIDEO, June 24, 1943—6 p. m.

[Received 10 : 48 p. m.]

617. Reference Department's 341, June 23, 7 p. m. As required by Uruguayan protocol, I obtained permission from Foreign Office to discuss informally petroleum matter with appropriate Uruguayan officials as authorized in Department's 321 [341]. The British Minister requested and was also granted similar permission and Foreign Office made appointment for us to call jointly upon President Ruiz of newly appointed board directors of Ancap. We mentioned to Ruiz concern of foreign companies as respects their position and requested an expression of the views of appropriate authorities with respect to situation and possible renewal of present agreement. Ruiz replied that Directorate had just few days ago taken over and although it was aware that contract existed between Ancap and foreign companies it had not had opportunity to study question of renewal. He assured me that he would inform board of our visit which he expected to do today and observed that in view of short period remaining it might have to consider arrangement for renewal of contract.

In view now of the Department's 341 and fact that Ambassador will not arrive here until 29th I shall seek interview with Ruiz tomorrow and convey to him the considerations embodied in last paragraph of cited telegram.

DWYRE

833.6363/233 : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, June 29, 1943—3 p. m.

353. Reference your 617, June 24. The Department desires that in your future discussions with the Uruguayan authorities you act alone and not jointly with the British Minister.

HULL

833.6363/251

The Secretary of State to the Ambassador in Uruguay (Dawson)

No. 1650

WASHINGTON, September 29, 1943.

SIR: The Department has read with interest your despatch no. 3196 of September 8, 1943¹⁶ transmitting copies of memoranda of con-

¹⁶ Not printed.

versations with Mr. Herman A. Metzger of the Standard Oil Company concerning prospective negotiations for a further extension of the marketing agreement between the Ancap and the private petroleum companies operating in Uruguay.

As stated in the Department's telegram no. 341 of June 23, 1943, this Government has no desire or intention of interposing in any Uruguayan domestic matter such as the implementation of the legislation giving Ancap a monopoly over sales of petroleum products in Uruguay and the Department does not now wish to be placed in a position of supporting a long-term renewal of the present marketing agreement between the Ancap and the private companies, which support might be construed as unwarranted interference of this nature. At the same time, the marketing agreement currently in force is intimately connected with the operation of the Latin American pool arrangement and the Department feels that in the general interest of the war effort of the United Nations as well as in that of Uruguay no action should be taken which might disturb the successful operation of the petroleum pool. Accordingly, as the occasion arises, the Embassy should lend its good offices in informal support of such temporary renewals of the present marketing agreement as may be necessary to maintain the *status quo* for the duration of the war emergency, or for as long as the Latin American petroleum pool may remain in being. While the length of time such temporary renewal or renewals might cover is a matter for negotiation between Ancap and the private companies, the Department feels that an extension of the agreement for a period up to two years would not be excessive from the point of view of the general interest.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

833.6363/260

The Secretary of State to the Ambassador in Uruguay (Dawson)

No. 1706

WASHINGTON, October 23, 1943.

SIR: The Department refers to its instruction no. 1650 of September 29, 1943 concerning the renewal of the marketing agreement between the Ancap and the private petroleum companies operating in Uruguay.

There is now enclosed a memorandum of conversation ¹⁷ held in the Department with Messrs. Ralph W. Bolton and H. A. Metzger of the Standard Oil Company. You will note therefrom that the private companies plan to suggest in the forth-coming negotiations that the renewed contract run for some three years to terminate coincidental

¹⁷ Not printed.

with the end of office of the present Uruguayan administration, February 28, 1947. The Department feels that there might be certain general advantages in such an arrangement which would appeal to the Ancap as well as to the private companies and that it would furnish adequate insurance for the present at least against disturbance of the war-time Latin American petroleum pool.

In requesting you to lend your informal support to enable the achievement of an agreement consistent with the best interests of the war effort, the Department suggested in its instruction under reference that, while the length of time the renewal agreement might cover was a matter for negotiation among the principals, a period of two years would not be excessive. In doing so the Department wished to make a clear distinction between a six months' period and one of a reasonable length in relation to the possible duration of the pool arrangements and the Department has of course no objection to the three year period now desired by the private companies provided it meets with the approval of the various Uruguayan entities involved.

Very truly yours,

For the Secretary of State:

DEAN ACHESON

833.6363/269

The Ambassador in Uruguay (Dawson) to the Secretary of State

No. 3557

MONTEVIDEO, November 23, 1943.

[Received December 6.]

SIR: I have the honor to refer to the Department's strictly confidential instructions nos. 1650 and 1706 of September 29 and October 23, 1943, respectively, concerning the renewal of the marketing agreement between the Ancap and the private petroleum companies operating in Uruguay, and requesting me to lend my informal support with a view to an agreement consistent with the best interests of the war effort. Reference is made also to the Embassy's despatch no. 3437 of October 29, 1943, and to my telegram no. 998 of November 23.¹⁸

In its despatch no. 3437 of October 29, the Embassy reported that the President of the Board of Directors of the Ancap had inquired of the petroleum companies regarding the conditions under which they would be willing to withdraw from the Uruguayan market. The matter was referred by the several local representatives to their head offices and, having received instructions, they informed the Ancap on November 15 that the companies did not wish to withdraw and desired on the contrary to commence negotiations looking to the renewal of the marketing agreement. There is enclosed a copy of

¹⁸ Neither printed.

the memorandum ¹⁹ handed the Ancap by the local representative of the West India Oil Company. It is understood that identical or similar replies were made by the other companies concerned.

The companies have been in frequent touch with the Embassy and have kept it informed as to developments. After transmitting their reply to the Ancap, the local representatives called at the Embassy for a discussion of the situation with the Counselor of the Embassy and myself. I informed them in a general way as to my instructions and expressed my willingness to make available my informal good offices in the manner authorized by the Department. I said that I wanted to help and not to hinder and that before taking any action I should be glad to have the benefit of their views as to the appropriate time for any discussion which I might have with the Uruguayan authorities.

The representatives of the companies were unanimous in suggesting that my informal representations be made at any early date before the negotiations with the Ancap got under way. They felt—and Mr. Dwyre and I agreed—that the Department's interest in an agreement consistent with the war effort should be made known to the Uruguayan authorities promptly rather than later when the Ancap might have taken a position from which it would find it hard to recede.

My conversation with the representatives of the companies took place on November 17 and in agreement with them I had expected to see the Minister of Foreign Affairs the following day. However, in the meantime my British colleague informed me that, in view of the British interest involved (Shell-Mex Uruguay Ltd.), he had cabled London for instructions and sent a copy of his message to the British Embassy in Washington. He inquired if I would be willing to wait a day or so in order that *le cas échéant* our representations might be made more or less at the same time. Having assured myself that this was agreeable to the representatives of the American companies, I informed the British Minister that I would defer my interview with the Foreign Minister. (At the same time I told him that, whatever might be the tenor of his representations, I would not be in a position to take joint action with him and that our interviews with Sr. Serrato ²⁰ would have to be separate.)

The British Minister received his instructions over the week-end and on Monday morning (November 22) it was agreed that I would seek an interview with Sr. Serrato that afternoon and that Mr. Vereker would endeavor to see him as soon thereafter as possible. As a matter of fact, Sr. Serrato received me shortly after four and received the British Minister about an hour later. I enclose English and Spanish texts of the statement ¹⁹ which I read in Spanish to Sr. Serrato and

¹⁹ Not printed.

²⁰ Uruguayan Minister for Foreign Affairs.

which is based on the Department's instructions as set forth in its telegram no. 341, June 23, 1943 and its instructions nos. 1650 and 1706 of September 29 and October 23. It will be observed that I refrained from mentioning specifically a three-year renewal period. This seemed distinctly advisable since it is the intention of the companies to make an initial request for five years. Naturally my statement was so worded as not to preclude my supporting a three-year renewal at a later stage if occasion arises.

In spite of the purely informal character of my action, I considered it essential that Sr. Serrato be furnished a written statement in order that the Uruguayan authorities and others concerned might be under no misapprehension as to the scope and nature of the support being given the companies. I wanted the record to be perfectly clear as respects not only what I was saying but also what I was not saying.

With regard to the action taken by the British Minister, I enclose a copy which he has kindly furnished me of his statement to Sr. Serrato.²¹ As noted in my telegram no. 998,²¹ under his instructions he is supporting a request for a renewal of the agreement for a five-year period. In so doing he refers to paragraph 2 of the protocol of the Anglo-Uruguayan trade agreement of 1935, the text of which I also enclose.²²

In conclusion, I may add that in my interview with him Sr. Serrato said nothing of any significance regarding the matter in hand, although he did remark that he was not in favor of disturbing the present situation. My British colleague informs me that his communication likewise elicited from the Minister no comment of interest.

Respectfully yours,

WILLIAM DAWSON

833.6363/268 : Airgram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, November 27, 1943—11 a. m.

[Received December 3—2 p. m.]

A-621. Referring to the Embassy's strictly confidential despatch no. 3557 of November 23, 1943 and telegram no. 998²³ of the same date concerning negotiations regarding renewal of marketing agreement between Ancap and petroleum companies, the Department is advised that the representatives in Montevideo of the West India Oil Company (Standard of New Jersey), Atlantic Refining Company (Atlantic Barrere, S. A.) and the Shell-Mex Uruguay Ltd. (British) have been

²¹ Not printed.

²² For text of the agreement signed at London, June 26, 1935, see League of Nations Treaty Series, vol. CLXXVI, p. 153.

²³ Latter not printed.

advised by Vegh Garzón, General Manager of Ancap, that by a resolution of the Board of Directors of the Ancap arrived at on November 24, 1943, the Board has decided to study the project of a new agreement with the companies referred to which will be initiated with the companies within a short time. An English translation of the Spanish text of the letter referred to follows:

"With reference to the matter discussed in the interview held by your representatives with the President of our organism on the 15th instant, in the course of which you made reply to the verbal inquiry which had been addressed to you as to the conditions under which your companies would be disposed to withdraw from the Uruguayan market, I have pleasure in informing you that by resolution of the Board of Directors of the same date, it was decided to undertake the study of the project of a new agreement with your companies, for which purpose we shall take the opportunity to initiate negotiations with you within the briefest possible period.

I avail myself of the opportunity to present to you the assurances of my highest consideration and esteem."

DAWSON

EFFORTS OF THE UNITED STATES AND URUGUAY TO CONTROL FINANCIAL TRANSACTIONS INVOLVING THE AXIS

840.51 Frozen Credits/11301

The Ambassador in Uruguay (Dawson) to the Secretary of State

No. 3019

MONTEVIDEO, August 2, 1943.

SIR: With reference to the Department's undated instruction No. 976 (received by the Embassy on November 19, 1942) and the Embassy's despatch no. 1858 of November 24, 1942,²⁴ both of which relate to the Uruguayan Financial and Economic Controls, I have the honor to transmit a report²⁵ on the present status of the Uruguayan controls in the light of the resolutions adopted by the Inter-American Conference on Systems of Economic and Financial Controls.²⁶ Reference is also made to the Department's circular telegram of April 7, 1942, 9 p. m. and to the Department's airgram no. A-113 of November 9, 1942, 6 p. m.²⁷ both of which request reports on the Uruguayan controls.

A report is being prepared on the operation of the Proclaimed List in Uruguay which will include comments on the extent to which

²⁴ Neither printed.

²⁵ Not printed.

²⁶ For texts of the resolutions, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Pan American Union, Washington, 1942). For correspondence on this Conference, held in Washington June 30-July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff.

²⁷ Neither printed.

particular persons and firms are being eliminated from the economic life of Uruguay as a result of their inclusion in the Proclaimed List. This question and other related Proclaimed List matters are, therefore, not discussed in the enclosed report. It may be stated generally, however, that the Proclaimed List has been very effective in Uruguay; that it enjoys the confidence and support of the Uruguayan people; and that signs of financial stress on those firms which are better able, from a financial standpoint, to ride out the storm are becoming more pronounced. Questions relating to the insurance field will likewise be discussed in a separate despatch. In the interest of brevity the Uruguayan laws relating to dollar currency control are omitted from the report because of the satisfactory nature of those controls, the only problem here being the existence of a black market of an unknown size.

It should be noted that the Committee for Political Defense of the Hemisphere has made a thorough study of the measures which have been taken by Uruguay (and certain other American Republics) to implement the resolutions passed by that Committee.²⁸ The implementation of some of these resolutions, notably Resolution XI dealing with clandestine radio stations, Resolution XIX dealing with censorship, and Resolution XVII dealing with extortion payments, would automatically operate as direct or indirect implementations of one or more of the Washington Resolutions.²⁹ To this extent, the Committee has, in the accomplishment of its own purposes, already emphasized to the Uruguayans certain inadequacies in their controls. (The text of the Uruguayan Constitution and of various Uruguayan laws appear in the Committee's report of March 1943, entitled "Leyes y Reglamentos Relacionados con la Defensa Nacional Contra Actividades Subversivas". An analysis of various Uruguayan laws in the light of certain resolutions of the Committee appears in Annex E of 1943 entitled "Memorandum sobre legislación y prácticas administrativas de acuerdo a los informes recogidos en la visita de consulta". Both of these reports have been forwarded to the Department.)

With a few minor exceptions, the Uruguayan financial and economic controls (the May, 1940 freezing decree excepted) were put into effect after the Rio de Janeiro Conference³⁰ and prior to the Washington Conference. This is significant in that it indicates that the Washington Conference has had no appreciable effect on the Uruguayan controls.

²⁸ See Emergency Advisory Committee for Political Defense, *Second Annual Report* (Montevideo, 1944), pp. 107 ff.

²⁹ Resolutions of the Inter-American Conference on Systems of Economic and Financial Control.

³⁰ Third Meeting of the Foreign Ministers of the American Republics, held January 15-28, 1942; for correspondence, see *Foreign Relations*, 1942, vol. v pp. 6 ff.

The failure on Uruguay's part to better implement the resolutions of the Washington Conference is due to a number of causes. One of the most important has been a reluctance to apply effective controls to Uruguayan nationals. Another is an apparent reluctance to apply controls which will seriously interfere with the operations within Uruguay of any person or firm (regardless of nationality and apart from any consideration of importance of Uruguay's economic life) because of the effect which such action might have on business generally and the consequent unemployment of Uruguayans through reduction of personnel, etc.

Another important cause has been the recent change of administration. As is pointed out in the Embassy's despatch No. 1858 of November 24, 1942, there was a reluctance for political reasons to take any affirmative action in the preelection period up to November 29, 1942. Subsequent to the elections further delays have arisen from the fact that the Presidential appointments to key offices were only recently approved by the Congress.

Aside from the causes above mentioned, which are basically political in nature, it is believed that there is a general failure on the part of the Uruguayan public and on the part of many Government officials to appreciate the extent of Uruguay's failure to implement the Washington Resolutions. This is probably due, in part at least, to the fact that the same importance is not accorded the Washington Resolutions as, for example, is accorded the Rio Resolutions. In particular fields, such as censorship, certain constitutional questions also exist.

The Embassy has consistently urged upon the appropriate Government officials the importance of adopting additional controls. (See the Embassy's despatches No. 1550 of September 11, 1942, No. 1604 of September 19, 1942 and No. 2033 of January 12, 1943.)³¹ These efforts will, of course, be continued. Various officers of the Embassy have also from time to time discussed the matter on an informal basis with officials of the Bank of the Republic. In these discussions the Embassy's cooperation has been offered particularly as regards explanations of the structure of the United States controls and their administration.

In an effort to further emphasize the inadequacies of the present laws, the Embassy, early in March of this year, prepared an analysis in Spanish of the present Uruguayan controls in the light of the Washington Resolutions and handed copies of this report to appropriate officials of the Bank of the Republic. The Bank later stated that it had no suggestions to offer. The report which was handed to the Bank is similar to the enclosed report except that in the Spanish version the text of each of the Washington Resolutions was included,

³¹ None printed.

together with a brief statement of how the United States had implemented each resolution. Certain comments which appear in the enclosed English version on the administration of the controls and certain statistical matter were omitted in the Spanish copy.

As a further means of arousing interest in the controls, the Embassy proposes to distribute Spanish copies of the Washington Resolutions to various newspaper editors and other influential persons and to this end requests that about forty Spanish copies and ten English copies of the Resolutions be forwarded as soon as possible. It is suggested that about five of the Spanish copies be sent airmail and that the balance be sent by sea pouch. A mere reading of these resolutions will, it is believed, serve to indicate to the Uruguayans the extent of their failure up to this time to install adequate controls.

While the Embassy's efforts have thus far not been followed by definite action on the part of the Government, they have achieved the purpose of keeping the matter continually before the appropriate officials and particularly before the officials of the Bank of the Republic. The following concrete results have been obtained:

In the latter part of 1942, the Embassy was advised that a tentative law had been drafted by the Bank of the Republic which allegedly complied with all of the Washington Resolutions, and that this draft had been passed to the Foreign Office for approval. Mr. Silveira Zorzi of the Bank, and probable author of the draft, stated last week that no action had as yet been taken regarding the proposed law but that he remained hopeful.

The Embassy has not had access to a copy of this draft and it is entirely possible that the Uruguayans will prefer to adopt additional controls without previous consultation with the Embassy. In this connection, it may be said that several months ago the Ambassador proposed that a committee be formed to study the matter of controls, and, at the same time, offered the Embassy's cooperation in any way that might be helpful. (See the Embassy's despatch No. 1604 of September 19, 1942). The suggestion as regards the formation of a committee was not favorably received by Dr. Guani.³²

In the latter part of June, 1943 Dr. Alberto Dominguez Campora, recently appointed a director of the Bank of the Republic, stated that he had conferred with the Minister of the Interior³³ and the President³⁴ regarding the above mentioned draft; that both were of the opinion that the Washington Resolutions should be further implemented; that he had commenced work on the draft; and that he would soon be in a position to discuss the matter with the Embassy. Other officers of the bank have indicated that additional measures will

³² Alberto Guani, Vice President of Uruguay.

³³ Carbajal Victorica.

³⁴ Juan José Amezaga.

probably be taken in the near future. While it is not possible to predict the fate of this new endeavor with any degree of certainty, the Department will be kept informed.

As the enclosed report will show, much remains to be done by Uruguay in the field of economic and financial controls. On the other hand some very important controls are already in effect, particularly as regards the vital matter of trade with, and the remission of funds to, enemy territory. Generally speaking, the most serious defect in the present laws is the lack of an effective control over internal transactions and property in Uruguay. While the need of additional controls to fill this gap is fully appreciated, as a practical matter this need is partially filled by the very satisfactory manner in which the Proclaimed List is operating in Uruguay. It should be pointed out, furthermore, that the administration of the present controls by the Bank of the Republic has been surprisingly good. And, needless to say, the bank's cooperation in this and in other fields has been of great assistance to the Embassy in economic warfare matters.

One matter which has been of constant concern to the Embassy regarding control measures is the probability, if not the certainty, that regardless of the additional laws that may be passed by the Uruguayan Government, the same administrative efficiency to which we are accustomed in the United States may not be expected. While, as above pointed out, the bank of the Republic is efficiently administered, the same technical skill and knowledge do not exist in other agencies, such as customs, which necessarily must be relied upon to make the controls effective.

Regarding the nature of the enclosed report it may be said, in conclusion, that the purpose was to present the controls as they are actually construed and administered by the Bank, as distinguished from how they should be construed, improved and administered. It is thought that the matters last mentioned are adequately covered in the Department's above mentioned instruction No. 976 and the circular instruction of August 4, 1942 entitled "Measures Adopted by the Inter-American Conference on Systems of Economic and Financial Control" and the November 13, 1942 supplement thereto.³⁵ It will also be noted that the texts of the controls are freely translated in the footnotes in an effort to achieve greater clarity and these translations differ somewhat from the more literal and technically precise translations forwarded in previous despatches. Since in some instances the translations are so free as to amount almost to a construction of the text, the translations are not enclosed in quotations.

Respectfully yours,

For the Ambassador:
ROBERT G. GLOVER
Commercial Attaché

³⁵ None printed.

840.51 Frozen Credits/11375

The Ambassador in Uruguay (Dawson) to the Secretary of State

[Extract]

No. 3067

MONTEVIDEO, August 12, 1943.

[Received August 24.]

SIR: I have the honor to refer to this Embassy's despatch no. 2200 of February 17, 1943 ³⁶ entitled "Uruguayan Banks and Proclaimed List Nationals" wherein the Department was informed of the program which the Embassy had initiated with regard to the curtailment of banking facilities to Proclaimed List nationals in Uruguay, and to the Department's instruction no. 1266 of April 12, 1943 ³⁶ in answer thereto.

The following results have been obtained through this program during the past six months: (1) Proclaimed List nationals have been compelled to liquidate outstanding loans amounting to \$U 1,297,857.54; (2) credits requested by said nationals amounting to approximately \$U 2,500,000 have been rejected by the banks; (3) approximately seventy real estate properties owned by said nationals, which had been under administration by the banks, have been turned back to their owners; (4) approximately twenty business firms whose names appear on the Proclaimed List have been compelled to vacate business premises owned or administered by said banks; and (5) two important enemy firms have undergone the prestige-lowering embarrassment of being sued in court for non-payment of matured debts.

No legal economic controls have been adopted in Uruguay through which the Embassy could insist upon proceedings of the above type against Proclaimed List nationals. (See memorandum enclosure in despatch no. 1858 of November 24, 1942.) ³⁷ While the economic weapon of the Proclaimed List could have been brought to bear on the ground that granting banking facilities to enemy nationals violated the Proclaimed List policy of "no dealing with enemy nationals", the Embassy felt that an insinuation as to the possibility of their inclusion made to the local banks who were dealing with such nationals would produce (in this instance) an effect contrary to that desired. The success of the program depended upon its adoption by all of the banks which engaged in the business of lending money; the banks would have hesitated to alienate good clients (by requiring a closing of accounts) while another bank was welcoming such customers and refinancing their canceled loans. Furthermore, the Banco Hipotecario, which is a State institution, engages in the business of lending money upon mortgage security, and under the strict letter of the law it cannot dis-

³⁶ Not printed.

³⁷ Neither printed.

criminate against a person who offers good and sufficient security; it cannot, under present law, discriminate against a business enterprise because it is on the Proclaimed List.

Respectfully yours,

For the Ambassador:
ROBERT G. GLOVER
Commercial Attaché

840.51 Frozen Credits 35/133

The Ambassador in Uruguay (Dawson) to the Secretary of State

No. 3403

MONTEVIDEO, October 23, 1943.

[Received November 4.]

SIR: I have the honor to refer to the Department's instruction no. 1587 of August 31, 1943⁴⁰ (file no. 840.51 Frozen Credits/11301) in reply to the Embassy's despatch no. 3019 of August 2, 1943, transmitting a report on the Uruguayan financial and economic controls.

As the Department is aware, questions pertaining to controls have had the special attention of Mr. Thomas C. Mann, an Auxiliary Officer, who is about to leave Montevideo to take up his new duties in Washington. Before departing, Mr. Mann has prepared a memorandum in which he reviews the existing situation and indicates in the light of his experience the minimum control measures which we should like to see Uruguay adopt. A copy of this memorandum is enclosed.⁴⁰

It will be observed that Mr. Mann concludes that the minimum measures desired would require legislative action in the form of an adequate freezing law. As the Department knows, in spite of the consistent efforts of the Embassy over a long period, it has proved extremely difficult to interest the Uruguayan authorities in more effective implementation of the Washington Resolutions. There is no present likelihood that the Government will on its own initiative propose legislation to Congress. It might perhaps do so under pressure from the Embassy but I am convinced that to induce the Government even to draft a bill would prove a long and tedious process. The present legislative session will end on December 15. As the Embassy has reported, Congress is functioning in a very unsatisfactory manner and the Government is experiencing difficulty in obtaining the enactment even of urgent measures in which it is interested. The situation has been fully set forth in the Embassy's despatch no. 3338 of October 9, 1943, enclosing a detailed study⁴¹ prepared by Dr. Eugene A. Gilmore.⁴² As pointed out therein, it is unlikely that

⁴⁰ Not printed.

⁴¹ Neither printed.

⁴² Senior Economic Analyst of the Embassy.

Congress will find time to consider any new legislation during the present session.

For the reasons indicated, I consider that there is no possibility of the enactment during the present session of a freezing law such as would be required to make Uruguayan controls more effective. I believe that the earliest date at which such legislation could be obtained, if at all, would be May of next year. In the circumstances, the Embassy questions the advisability of pressing the matter with the Uruguayan Government for the present. Since there is no hope of obtaining action before the next session, I should be disposed to defer any further representations until January. If it then appears desirable, appropriate efforts could be made to induce the Government to draft a suitable bill for presentation to Congress when it reconvenes in March.

In the meantime, I should be glad to have the benefit of an expression of the Department's views and wishes with respect to just how far the Embassy should go in urging the Government to take the action desired. It is believed that, in considering the matter, the officers of the Department will wish to take advantage of the approaching opportunity to discuss the whole situation with Mr. Mann who is thoroughly familiar with all aspects of the question.

As I have repeatedly pointed out, while the Uruguayan Government has from the outset given courageous and effective support to our policies and has cooperated magnificently in what may be broadly termed the political field, its cooperation has been considerably less enthusiastic and less effective in what may be termed the economic field. In fact, in the light of our experience thus far, I am inclined to doubt whether, whatever representations the Embassy may make and however persistently it may pursue the matter, Uruguay can ever be induced to adopt the measures called for by the Washington Resolutions or to carry them out efficiently if they were to be adopted. Recent Allied victories make the attainment of this goal even more difficult than formerly because of the over-optimism which they have engendered and the widespread tendency to believe that the war in Europe is practically won and may end almost any day.

Fortunately, certain favorable factors make the absence of more effective controls of less practical importance than may be the case in some other countries. In the first place, Uruguay is a small country and German interests are not extensive. More important, the Proclaimed List has functioned and continues to function in a very satisfactory manner and its effectiveness and the effectiveness also of such controls as exist have been materially enhanced by the excellent cooperation of the Bank of the Republic and other institutions. From a practical standpoint, I doubt if Uruguay's failure to implement more adequately the Washington Resolutions has prejudiced our war effort.

to any appreciable degree; and, since the attainment of more effective implementation is to say the least problematical, the question may well be raised as to whether we should press for additional measures or content ourselves with taking the fullest day-to-day advantage of the cooperation which we are already enjoying.

Respectfully yours,

WILLIAM DAWSON

740.33112A/10 : Airgram

*The Acting Secretary of State to the Ambassador in Uruguay
(Dawson)*

WASHINGTON, October 29, 1943—7 p. m.

A-589. Reference Embassy's despatch 3211 of September 13.⁴³ There was discussion by the Interdepartmental Committee concerning the question raised in the last section of the Embassy's despatch relating to the inclusion of firms in the Proclaimed List for a specified period of time as a penalty for dealings with Proclaimed List nationals. The Committee's views were as follows:

1. The policy with respect to listing persons for dealings with Proclaimed List nationals continues to be that listing will be approved in the following cases:

(a) for transactions involving materials originating in the United States;

(b) for a consistent, deliberate and substantial course of dealings; and

(c) where the transaction is of particular assistance to the Proclaimed List firm in its undesirable activities.

2. The Committee believes that the Proclaimed List should not be regarded or utilized as a means of meting out punishment for inimical acts but as a practical weapon for waging economic warfare, and that additions to the Proclaimed List should be made primarily for the purpose of invoking control measures by this government.

3. The Committee believes that, except in the instances referred to in paragraph 1, the Embassy should accept an undertaking whenever it has reason to believe that it would be adhered to.

The Committee recognizes that there are a certain number of cases which would not be included in the Proclaimed List and in which an undertaking would not be deemed feasible, but it is felt that the alternative of using the Proclaimed List as a means of graduated punishment to prevent all dealings with Proclaimed List nationals would be an obvious interference in the affairs of the other American republics that would react against this government and, on balance, against the effectiveness of the Proclaimed List generally.

STETTINIUS

⁴³ Not printed.

NEGOTIATION OF AN AGREEMENT FOR AN EXPORT-IMPORT BANK
LOAN TO URUGUAY FOR PUBLIC WORKS⁴⁴

833.51/1012 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, January 18, 1943—5 p. m.

[Received 7:35 p. m.]

87. According to an Associated Press despatch, Guani⁴⁵ said yesterday in a press interview in Buenos Aires that from his talks in Washington there will probably result a 100 million peso loan for Public Works. In a press interview given in Montevideo the previous day he talked of a 5-year Public Works plan and a large loan without mentioning any specific amount.

I have, of course, given Guani no encouragement to expect a large loan. Furthermore, in our various conversations I had pointed out consistently that it would be unfortunate if people here were allowed to expect too much from his visit and in particular if they gained the advance impression that a sizeable loan would be sought or abounding.

DAWSON

833.51/1016

The Ambassador in Uruguay (Dawson) to the Secretary of State

No. 2144

MONTEVIDEO, February 4, 1943.

[Received February 12.]

SIR: I have the honor to transmit herewith for the Department's files the Spanish text, as published in the local press, of President Baldomir's message to the Council of State requesting authorization to contract a loan of \$20,000,000 with the Export-Import Bank,⁴⁶ and of the decree authorizing the same which was unanimously approved by the Council of State on February 2, 1943.

The announcement has evoked relatively little editorial comment. *El Tiempo*, administration organ, characterizes the loan as a "brilliant operation", calling attention in particular to the advantages obtained in relieving the local bond market of the necessity of absorbing an equivalent amount of internal bonds. *La Mañana*, (opposition Colorado) which had previously taken a strong adverse position when a loan of \$50,000,000 was mentioned in the press, now criticizes the haste with which the matter was concluded, particularly in view of the approaching session of Congress. *El Debate* (Herrerista and violently anti-Administration) makes similar observations. *La Tribuna*

⁴⁴ Continued from *Foreign Relations*, 1942, vol. vi, pp. 716-731.

⁴⁵ Alberto Guani, Uruguayan Minister for Foreign Affairs.

⁴⁶ For résumé of the terms of the loan agreement, see bracketed note, *infra*.

Popular, consistent opponent of the present administration, takes the occasion to review in critical terms the financial policy of the past four years and concludes with the observation that the incoming administration by a more statesman-like handling of the country's financial problems might have avoided the necessity of an external loan. In this connection it should be noted that the President-elect, Dr. Amezaga, is Vice-President of the Council of State, which is composed principally of Batllistas and Baldomiristas, i.e. the political groups responsible for his election. In approving the loan without waiting to submit it to the new Congress, the Administration and the members of the Council were presumably motivated by a desire to avoid the inevitable delays incident to organizing the new session rather than by a fear that the project would not be approved.

El Plata (Independent Blanco) comments in generally favorable terms upon the conclusion of the loan, but also expresses the hope that the new administration will follow a conservative financial policy.

Respectfully yours,

WILLIAM DAWSON

[The agreement between the Republic of Uruguay and the Export-Import Bank providing a loan for public works was signed at Washington, February 4, 1943. It provided that the Export-Import Bank extend a credit of \$20,000,000 for the purchase of supplies, equipment, and services. This was for roads, bridges, sanitation and sewerage facilities, reservoirs, agriculture and irrigation projects, certain specified airports, and hydroelectric and railroad construction insofar as these did not require war-needed materials from the United States. Uruguay was to present to the Bank statements of withdrawal of funds accompanied by promissory notes. The loan was to be paid in twenty-five semi-annual installments with interest at four percent. The supplies and equipment were to be purchased from the United States. The Bank was to have the right to inspect public works projects and verify records and accounts. Uruguay was to furnish quarterly and other reports, to levy no taxes on the promissory notes, and to make no payment from the loan to firms or persons on the Proclaimed List.]

833.51/1022

The Ambassador in Uruguay (Dawson) to the Secretary of State

No. 2306

MONTEVIDEO, March 15, 1943.

[Received March 23.]

SIR: I have the honor to refer to the Embassy's despatch no. 2168 of February 11, 1943,⁴⁷ reporting with regard to local editorial comment

⁴⁷ Not printed.

on the agreement under which the Export-Import Bank opened a credit of \$20,000,000 in favor of the Government of Uruguay.

While the general reaction was very favorable, the *Herrerista* organ *El Debate* (see penultimate paragraph of despatch under reference) attacked the loan on the ground that the manner of its approval was unconstitutional. It asserted furthermore that, in view of the current deficit, interest and amortization payments could not be met from general revenues without the enactment of heavy additional taxes.

El Debate was not only bitterly hostile to President Baldomir but attacked him and his Administration in the most scurrilous manner. Shortly after the conclusion of the loan agreement had been announced, it began inquiring in its columns and has continued to inquire whether a "commission" had been paid in connection with the loan—its inquiry being tantamount to accusing Dr. Guani or some other official of the Baldomir Administration of profiting personally by the operation.

On March 13 and in its two succeeding issues *El Debate* has carried violent articles condemning the loan on the ground that the Export-Import Bank is to exercise a certain control over the expenditure of the funds and to designate a "fiscal" (representative with supervisory functions) for the purpose. *El Debate* considers this humiliating for Uruguay and contrary to "American solidarity", concluding one of its articles with a statement intimating that even Liberia would not expect such treatment. In order that the Department may appreciate on what a low and scurrilous plane the campaign is being conducted, I enclose copies of the three articles referred to.⁴⁸ Similar items will no doubt continue to appear.

The Embassy has seen no other recent comment regarding the loan agreement in the Montevideo press. Incidentally neither the text nor the details of the agreement have been made public.

El Debate's articles are on a par with other blasts directed against the Baldomir Administration and in view of its general attitude what it says need not be taken too seriously.

However, a few days ago Dr. Javier Mendivil, who was Minister of Finance in the Baldomir Cabinet and now holds the position of Minister of Industries and Labor, told me that he was very disappointed in the terms of the agreement signed by Dr. Guani with the Export-Import Bank. He referred in particular to the clauses requiring the Government to justify and to report upon the expenditure of funds and stated that the contract contained provisions which were "humiliating" and should not be necessary in the case of a country like Uruguay. He said that Uruguay had an excellent financial record and that it could not for a moment be supposed that the loan would be used otherwise than for the purpose granted. Dr. Mendivil ex-

⁴⁸ None reprinted.

pressed the opinion that no Congress would have approved such an agreement.

I told Dr. Mendivil that according to my understanding the Export-Import Bank operates subject to regulations and laws restricting the purposes for which and the conditions under which loans may be granted. I said also that similar agreements with the Bank had been entered into by other governments and that in fact it was my understanding that Uruguay had received rather more liberal treatment than certain other countries.

Thus far Dr. Mendivil is the only Uruguayan official who has mentioned the matter to me.

I am under the impression that Uruguay was given very liberal treatment as respects not only the financial terms of the loan but also the degree of control to be exercised by the Export-Import Bank over expenditures.

It might be helpful if the Department could send me a brief statement regarding the matter which I could communicate either officially or informally to the Foreign Office or to President Amezaga himself. I have in mind a statement covering very briefly the conditions under which the Bank usually makes such agreements and confirming my impression that Uruguay did receive particularly favorable treatment (assuming of course that this impression is correct). Such a statement would be useful in case the President and other officials should have the idea that the agreement contains provisions which are "humiliating" for Uruguay.

Respectfully yours,

WILLIAM DAWSON

833.51/1025

The Ambassador in Uruguay (Dawson) to the Secretary of State

No. 2325

MONTEVIDEO, March 18, 1943.

[Received March 25.]

SIR: I have the honor to refer to my despatch no. 2306 of March 15, 1943, concerning the recent agreement under which the Export-Import Bank opened a credit of \$20,000,000 in favor of the Government of Uruguay, and reporting with regard to criticism of the agreement primarily because of the control to be exercised by the Bank. (Reference is made also to my telegram no. 315 of March 18.)⁴⁹

The Embassy received this morning from the Foreign Office a note stating that the Government finds Clauses 5, 8 and 9 of the agree-

⁴⁹ Not printed.

ment⁵⁰ not "entirely satisfactory"; that it has been decided to initiate "friendly negotiations" with a view to their modification; and that instructions in this sense have been addressed to the Uruguayan Embassy in Washington. The Foreign Office requests my assistance in the matter. The text of the note and an English translation are enclosed.⁵¹

I already had an appointment later in the morning with the Foreign Minister⁵² and in the course of our conversation he mentioned the loan matter and his note. He told me that the instructions to the Uruguayan Ambassador in Washington⁵³ referred to in the note had been forwarded yesterday by airmail and not by telegraph. He gave me for my information a copy of a memorandum which had also been sent to the Ambassador. I enclose copies of this memorandum⁵⁴ which lack of time has made it impracticable to translate.

Minister Serrato said that he hoped and believed that the changes desired by the Uruguayan Government could be made in the agreement. He expressed the opinion that matters could be taken care of by changes in wording which would satisfy Uruguayan sentiment and at the same time give the Export-Import Bank the assurances which it requires.

As I had previously told Dr. Mendivil (my despatch no. 2306), I explained to Sr. Serrato that, according to my understanding, the Export-Import Bank operates subject to laws and regulations restricting the purposes for which and the conditions under which loans may be granted. I said also that similar agreements with the Bank had been entered into by other governments and that in fact it was my understanding that Uruguay had received rather more liberal treatment than certain other countries. I assured him that there had been no intention whatever to cast any reflection on the credit of the Uruguayan Government or on the conduct of its finances and of course no intention to impose conditions which could in any way be considered as "humiliating".

Sr. Serrato said that he realized all this but that it must be remembered that Uruguayan opinion is very sensitive (*quisquilloso*). He remarked that the loan contract in its present form would prove highly embarrassing politically, that it would be made a political football by the Herreristas, and that in fact an Herrerista Senator had already

⁵⁰ Clause 5 provided that Uruguay present to the Bank itemized statements of withdrawals from the fund with promissory notes of the Republic; clause 8 required that equipment and supplies for the public works were to be produced in the United States or Uruguay and those from the United States were to be carried in ships of United States registry; clause 9 gave the Bank the right to inspect projects and verify records and accounts.

⁵¹ Not printed.

⁵² José Serrato.

⁵³ Juan Carlos Blanco.

⁵⁴ Not printed.

requested information concerning Dr. Guani's negotiations with the Export-Import Bank.

In conclusion, Sr. Serrato said that, speaking quite frankly, it was his opinion that, unless the clauses in question were amended to meet the local situation, the Government would not make use of the loan.

I may add that today's *Mañana* contains an article stating that the Government has suggested certain changes in the loan agreement, that the changes pertain to control clauses which are hardly in accord with the "principles of inter-American cooperation", and that this shows that *La Mañana* was right in criticizing at the time the haste with which the agreement was considered by the Council of State. *Crítica* of Buenos Aires also dealt with the matter yesterday in an article in which its Montevideo correspondent reports that the former Council of State authorized within 24 hours (as was the case) the signing of an *ad referendum* agreement; that this was done on the basis of a telegram from Dr. Guani containing the financial conditions of the operation; that the urgency was due to Dr. Guani's desire to sign the agreement himself; and that "subsequently and in an additional document" other clauses were stipulated which the present Government considers objectionable (*inconvenientes*).

It is to be hoped that some means can be found by the Department and the Export-Import Bank of adjusting the difficulties which have arisen. In view of the more recent developments and of my conversation with Minister Serrato, it is doubted if the statement suggested in the closing paragraph of my despatch no. 2306 would suffice to overcome the objections of the Uruguayan Government.

Respectfully yours,

WILLIAM DAWSON

833.51/1026

The Ambassador in Uruguay (Dawson) to the Secretary of State

No. 2340

MONTVIDEO, March 19, 1943.

SIR: I have the honor to refer to my despatch no. 2325 of March 18 concerning the Export-Import Bank loan agreement with Uruguay and transmitting a note from the Uruguayan Foreign Office to the effect that the Uruguayan Government finds clauses 5, 8 and 9 of the agreement not "entirely satisfactory"; that it has been decided to undertake "friendly negotiations" with a view to their modification; and that instructions in this sense have been addressed to the Uruguayan Embassy in Washington. In the despatch under reference I reported also regarding a conversation with the Minister of Foreign Affairs in the course of which he expressed the opinion that matters could be taken care of by changes in wording which would satisfy Uruguayan sentiment and at the same time give the Export-Import Bank the assurances which it requires.

Today I am in receipt of a second note (copy enclosed) with which Sr. Serrato transmits a sheet (copy also enclosed)⁵⁵ containing the changes which the Uruguayan Government proposes as respects clauses 5, 8 and 9. In his note he states (as is likewise indicated on the sheet setting forth the proposed changes) that it is desired also that the third paragraph of clause 5 and all of clause 10 be eliminated.

Statement by Dr. Guani.

There appeared last evening in the Montevideo newspaper *El Plata* (Blanco Independiente) a good statement (text enclosed⁵⁶) in which Dr. Guani discusses the conditions under which the Export-Import Bank opens credits and states that the control provisions in the recent agreement are those included in "all other loans granted by the said bank to other nations and are also the same as those stipulated and already accepted by the Uruguayan Government in the contract negotiated a few months ago with the same bank for financing the Rio Negro work." Dr. Guani adds that the financial terms are the best that could have been obtained anywhere in the world at the present time and are also more favorable than those of any other loan agreement signed by Uruguay prior to 1942.

In commenting on Dr. Guani's statement this morning's *Mañana* says that rather than a "rectification" it constitutes a "confirmation" of the existence of "unusual clauses". *La Mañana* calls for the publication of the agreement. The *Herrerista Debate* continues its campaign against the agreement and in its edition of today publishes clause 9, stating that it makes clear the "existencia de un fiscal denigrante para nuestra condición de nación libre".⁵⁷ *El Debate* announces that it will subsequently publish other clauses.

In its afternoon edition, *El Diario* (which is affiliated with *La Mañana*) recognizes that, as Dr. Guani pointed out, the control provisions to which exception is taken were included in the Rione contract⁵⁸ with the Export-Import Bank. It asserts, however, that "anomalous" provisions of this nature, although explainable in the special case of the Rione, are "embarrassing" (*incomodas*) where the "superior and responsible concept of the State" is involved.

Respectfully yours,

WILLIAM DAWSON

⁵⁵ Neither printed.

⁵⁶ Not printed.

⁵⁷ Translation: "provision for a supervisor degrading to our position as a free nation."

⁵⁸ Hydroelectric project.

833.51/1023 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, March 24, 1943—3 p. m.

[Received 4 : 20 p. m.]

337. My telegram 315, March 18, 5 p. m.⁵⁹ and subsequent despatches concerning changes desired by the Uruguayan Government in the recent loan agreement with the Export-Import Bank. In an informal conversation last evening President Amezaga told me that he believed matters could be adjusted satisfactorily if the Export-Import Bank would designate the Bank of the Republic as its representatives for the purposes envisaged in Clause 9. Despatch follows by courier today.

DAWSON

833.51/1027

The Ambassador in Uruguay (Dawson) to the Secretary of State

No. 2360

MONTEVIDEO, March 24, 1943.

[Received April 5.]

SIR: I have the honor to refer to my telegram no. 337 of March 24, 3 p. m., and to previous correspondence concerning changes desired by the Uruguayan Government in the loan agreement recently signed by Dr. Guani with the Export-Import Bank.

I met President Amezaga yesterday evening at a social gathering and had with him an informal conversation in the course of which he referred to the loan. He said that while he fully appreciated that the agreement followed the lines of similar contracts negotiated by the Export-Import Bank, including that with the Rione, nevertheless in the case of an agreement entered into by the Uruguayan Government itself it would be extremely difficult for political reasons to accept its provisions without amendment.

He stressed in particular the provision in clause 9 giving the Export-Import Bank the right "through its designated representative or representatives to inspect any approved project or projects and to receive and verify all the necessary information regarding all records and accounts relative thereto". It may be recalled that as reported in my despatch no. 2306 of March 15, 1943, the *Herrerista Debate*, in violent articles condemning the loan agreement, referred specifically to the designation by the Bank of a "fiscal" (representative with supervisory functions) for the purpose of controlling expenditures under the loan.

In our conversation of last evening President Amezaga said that he hoped very much that matters could be adjusted satisfactorily

⁵⁹ Not printed.

and that he believed that this could be accomplished if the Export-Import Bank would designate the Bank of the Republic as its representative for the purposes envisaged in clause 9. It may be noted that in the changes proposed by the Foreign Office in its note of March 19 (enclosures nos. 1 and 2 to my despatch no. 2340), it was suggested that clause 9 be amended to read as follows:

“Si el Eximbank, lo considerase necesario, de tiempo en tiempo o en forma regular, cada trimestre vencido, podrá requerir una información, o estado detallado de las inversiones realizadas con cargo a esos recursos, para los fines especificados en los proyectos aprobados y requerir que esas informaciones sean verificadas por el Banco de la República O. del Uruguay. (underscoring by Embassy).

“La República, a pedido del Eximbank, podrá suministrar cualquier información adicional relativa al desarrollo total o parcial de cualquier proyecto aprobado bajo este convenio.”⁶⁰

In his conversation, the President made it quite clear that he considers Dr. Guani responsible for the situation which has arisen. He said that Dr. Guani had failed to inform the Government fully and had acted independently because of his desire to handle the whole matter himself.

In the interest of our relations with Uruguay and for Dr. Guani's sake also, I trust that some satisfactory solution may be worked out.

Respectfully yours,

WILLIAM DAWSON

833.51/1024 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, March 25, 1943—4 p. m.

[Received 5:15 p. m.]

341. Reference last paragraph Embassy's despatch 2306 of March 15. In order that criticisms in the Uruguayan press regarding articles 5 and 9 of the Export-Import Bank loan contract may be promptly answered the Embassy has been requested by Ing. Giorgi on behalf of Dr. Guani, to ascertain by cable whether the form of contract is the same for all countries and in particular whether other contracts contain the provisions found in the articles above mentioned.

DAWSON

⁶⁰ Translation: “If it be considered necessary, the Eximbank could, from time to time or regularly each quarter, require a report or detailed statement of the expenditures chargeable to these resources, for the purposes specified in the approved projects and require that these reports be verified by the Bank of the Republic of Uruguay.

Upon request of the Eximbank, the Republic could provide any additional information relative to the total or partial development of any project approved under this agreement.”

833.51/1024 : Telegram

The Secretary of State to the Ambassador in Uruguay (Dawson)

WASHINGTON, March 29, 1943—6 p. m.

200. Your 341, March 25, 4 p. m. The Department has examined Articles 5, 8 and 9 of the Agreement with officers of the Bank who inform the Department as follows: Article 5 establishes mechanism for making advances and is procedure heretofore adopted by Bank for public works contracts. Article 8 is required by United States legislation. Article 9 is likewise a standard clause which appears in all contracts due to the necessity Bank has of being able to report on manner in which public funds which it has advanced under loan agreements have been used. These provisions appear in all contracts of similar nature signed by Bank with other countries.

The Embassy's attention is called especially to the following two points: (1) The Agreement of February 4 signed with Dr. Guani was first taken up with him in both English and Spanish and each clause explained in the light of adopted procedure of long standing or legal requirements. (2) The Bank is an official institution of this Government handling public funds and it must at all times be in a position to render full accounting of funds advanced by it. Furthermore it should be pointed out that the terms of no other loan agreement of like character signed by the Bank with any other country are more liberal or favorable to that country than those contained in the Agreement with Uruguay.

In view of instructions to Uruguayan Ambassador in Washington from his Government the Department believes that it will be more satisfactory for all concerned to have matter resolved through him with the Bank and the Department in Washington.

HULL

833.51/1030 : Telegram

The Ambassador in Uruguay (Dawson) to the Secretary of State

MONTEVIDEO, April 28, 1943—9 a. m.

[Received 9:15 a. m.]

451. The press announces and the Minister of Foreign Affairs confirms that yesterday the Cabinet decided unanimously to approve the terms of the Export-Import Bank loan as amended⁶¹ pursuant to recent conversations in Washington.

DAWSON

⁶¹ The Uruguayans wanted changes of a relatively minor character such as alterations of phraseology and the inclusion of ships of Uruguayan registry as qualified to bring equipment and supplies from the United States for the public works.

VENEZUELA

DISCUSSIONS BETWEEN THE UNITED STATES AND VENEZUELA CONCERNING DEFENSE PROBLEMS

831.24/450 : Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, January 26, 1943—2 p. m.

[Received 8:14 p. m.]

108. Foreign Office has inquired orally whether it is contemplated that ratification instruments will be exchanged covering the Lend-Lease Agreement signed at Washington, March 18, 1942¹ and if so, whether this will be done in Caracas or at Washington. The Foreign Office pointed out that the agreement itself does not mention this point.

CORRIGAN

811.34531/11

*The American Ambassador in Venezuela (Corrigan) to the Venezuelan Minister for Foreign Affairs (Parra-Pérez)*²

No. 1199

CARACAS, January 28, 1943.

EXCELLENCY: I have the honor to refer to the Staff Agreement drawn up in Caracas on January 15, 1942,³ by the military and naval representatives of the United States of America and the United States of Venezuela and to inform Your Excellency that my Government, in conformity with the notes in this connection exchanged between the Ministry for Foreign Affairs and this Embassy, has accepted the following modifications and interpretations which have been agreed upon by the appropriate authorities of both countries:

1. The Government of Venezuela, taking into consideration the grave present situation and desirous of cooperating efficaciously with the United States in all matters related to the defense of the Continent, ratifies the permission for entry into Venezuelan territorial waters for vessels and aircraft of the armed forces of the United States of America.

¹ For correspondence on this agreement, see *Foreign Relations*, 1942, vol. vi, pp. 735 ff.

² Copy transmitted to the Department by the Ambassador in Venezuela in his despatch No. 3904, January 29, 1943; received February 6.

³ Not printed.

2. The Government of the United States of America promises to furnish, through its appropriate authorities, the technical assistance, services and materials requested by the Government of Venezuela, within the limit of the resources available and taking into account the commitments of the United States of America to countries engaged in war against the Axis nations.

3. The two Governments are in agreement that the mechanics of the Air Corps of the United States servicing planes making use of Venezuelan airports, maintain their civil character in conformity with the provision of Article 7 of the mentioned agreement of January 15, 1942.

4. Paragraph *d*) of Article 11 of the cited Staff Agreement of January 15, 1942, is amended as follows:

“*d*) The United States agrees to furnish like protection to ships and aircraft of Venezuela's armed forces which may be in the seaports or upon the airports of the United States or of any of her possessions or those overseas bases in Newfoundland and in the Islands of Bermuda, the Bahamas, Jamaica, St. Lucia, Trinidad and Antigua and in British Guiana.”

This note and that of Your Excellency in the same sense will establish that the Staff Agreement drawn up on January 15, 1942 by the military and naval representatives of the United States of America and the United States of Venezuela is now in effect, subject to the modifications and interpretations agreed upon by the appropriate authorities of the two Governments as herein set forth.⁴

I avail myself [etc.]

FRANK P. CORRIGAN

800.76 Monitoring/500 : Airgram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, February 5, 1943—6:30 p. m.

A-378. Your 70, January 13, noon.⁵ Department entirely agreeable that S. R. Lines, Federal Communications Commission engineer who is now in Venezuela shall serve as instructor to Venezuelan technicians in direction finder project for elimination of clandestine radio stations. He will probably remain in Venezuela for 3 months. While entire direction finder project is under your supervision and under the immediate direction of the United States Military Attaché at Caracas, this Government has no objection provided you concur, to ultimate control of Lines' official activities by Venezuelan authorities. Please appropriately inform Lines.

Appropriate United States Army officials are being informed with

⁴ The Venezuelan Minister for Foreign Affairs indicated his agreement with this statement in an identical note of the same date.

⁵ Not printed; it reported that Venezuela accepted a plan proposed by the United States to survey and eliminate clandestine radio.

respect to these requirements as they apply to Army representatives who will proceed to Venezuela in connection with direction finder project.

HULL

831.248/74a : Telegram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, May 1, 1943—7 p. m.

296. Venezuelans have submitted Lend-Lease request for assignment of 15 North American advanced trainers. Munitions Assignments Subcommittee—Air has recommended disapproval on basis of information submitted in naval attaché's confidential report of March 17 (Serial no. 71-43).⁶ Final action on request has, however, been postponed by the Munitions Assignments Committee—Air at the request of the Department.

Department would appreciate your comments on whether disapproval of request on basis of naval attaché's adverse report would appear justified and also whether disapproval at this time would be likely to result in any adverse repercussions. In latter event, MAC-A⁷ would no doubt be disposed to approve assignment of smaller number, if requested by Department to do so.

HULL

831.248/75 : Telegram

The Chargé in Venezuela (Flack) to the Secretary of State

CARACAS, May 4, 1943—9 p. m.

[Received May 5—4:47 a. m.]

412. Department's telegram 296, May 1, 7 p. m. While adverse report of Naval Attaché appears justified in opinion of our experts here, I consider that constructive use should be made of technical study suggested on page 13 thereof. This procedure would give Venezuela an opportunity to establish a set-up to correct existing lack of facilities.

If action on full request cannot be postponed pending results of suggested technical study, approval of smaller number might be employed as justification for contemplated study, pending any further approvals.

FLACK

⁶ A summary of this report (not printed) was transmitted to the Department by the Ambassador in Venezuela in his despatch No. 4180, March 22, 1943. The Naval Attaché, Lt. Sterling J. Cottrell, noted the great deterioration of aviation material in the hands of the Venezuelans and requested the sending of spare parts. (831.248/74)

⁷ Munitions Assignments Committee—Air.

831.24/647 : Airgram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, May 26, 1943—1 p. m.

A-603. Your despatch 4069, February 24 and airgram A-235, May 12.⁹ Although the second paragraph of Article X of the agreement¹⁰ does not provide for any further action after the act of ratification by the Public Powers of Venezuela in order to bring the agreement into full force, and does not provide for any further exchange of instruments of any kind, the Department is willing to have an exchange of notes at Caracas if the Venezuelan authorities are convinced that such action is essential in conformity with Venezuelan constitutional procedures. So far as this Government is concerned a simple notification that the agreement has been ratified by the Public Powers of Venezuela would be regarded as sufficient.

The Department will forward promptly certain changes which it considers necessary in the wording of the note, which the Ministry of Foreign Affairs has drafted for presentation by the Embassy.

With reference to numbered paragraphs 1 and 2 in note no. 494 of February 18 from Dr. Parra Perez,¹¹ it is the policy of this Government to maintain the strictly confidential character of this type of agreement. It was, accordingly, understood by the negotiators that this agreement would be treated as strictly confidential. It appears that Article 77 of the Constitution provides that the right to approve or disapprove international agreements rests with the Venezuelan Legislature and that such instruments shall not be published officially before having been ratified and exchanged, but there does not appear to be any express requirement that such instruments shall be published in all cases, irrespective of the confidential character of the agreement. Inquiry may be made whether the eighth paragraph of Article 100 of the Constitution gives the President any discretion in regard to a question concerning publication in such a case. The Department would appreciate being informed as to the possibility of arriving at a satisfactory solution of this matter.

HULL

⁹ Neither printed; but see telegram No. 108, January 26, 2 p. m., p. 793.

¹⁰ The Lend-Lease Agreement.

¹¹ Not printed; it was addressed to Ambassador Corrigan and cited the 77th article of the Venezuelan Constitution requiring the sanction of the Chamber of Deputies and the Senate to all treaties and agreements as the reason for an exchange of notes (831.24/497). See Articles 77 and 100 of the *Constitución de los Estados Unidos de Venezuela Sancionada por el Congreso Nacional en 1936*, (Caracas, 1936).

810.20 Defense/3560

The Chargé in Venezuela (Flack) to the Secretary of State

No. 4504

CARACAS, June 12, 1943.

[Received June 22.]

SIR: Confirming my telegram No. 522 of June 7, 6 p. m.,¹² I have the honor to enclose a copy of my Note No. 1341 of June 3, 1943 to the Foreign Minister and a copy of the Minister's note No. 1528 of June 10, 1943 in reply.¹³ Oral approval of the request was communicated to me on June 7, as previously reported by telegram.¹⁴

The description of the proposed extension of the danger areas was supplied to me by the Naval Attaché and incorporated in my note of June 3, 1943, which I handed personally to the Foreign Minister on the morning of June 4, 1943.

Respectfully yours,

JOSEPH FLACK

831.796/137

The Chargé in Venezuela (Flack) to the Secretary of State

No. 4507

CARACAS, June 12, 1943.

[Received June 22.]

SIR: With reference to previous despatches reporting the granting by Venezuela of landing and customs exoneration facilities for the charter service of Defense Supplies Corporation operated by hydroplanes of the Pan American Airways, I have the honor to enclose a copy of the Embassy's note No. 1289 of April 17, 1943¹⁵ addressed to the Foreign Minister requesting the extension of the same facilities already accorded for this service at Maracaibo and Puerto Paez to landings on Lake Valencia as an alternative port. This request was made at the instance of the local Manager of the Pan American Airways and was complied with under the Department's standing instructions with regard to facilitating this charter service.

There is also enclosed a copy with translation, of the Foreign Minister's note No. 1509 of June 9, 1943,¹⁵ informing me that the Venezuelan Government agrees to accede to the request. I have consulted Mr. Silliman, the local Pan American Airways Manager and he has informed me orally that the reply is satisfactory to his Company.

Respectfully yours,

JOSEPH FLACK

¹² Not printed.¹³ Neither printed; these notes indicated the desire of the United States Navy to extend the mine fields in the Gulf of Paria and the Venezuelan acquiescence.¹⁴ No. 522, June 7, 1943, not printed.¹⁵ Note not printed.

831.20/69 : Airgram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, August 27, 1943—6 p. m.

A-842. Your Despatch No. 4540, June 21.¹⁶ The Department has been informed by the War Department that it will approve the assignment of a United States Military Aviation Mission to Venezuela under the following conditions:

(a) That a standard agreement for the Mission be signed by the Venezuelan Government.

(b) The Venezuelan Government to pay the full amount of additional compensation to members of the Mission in accordance with the scale approved by the President.

In the exchange of notes concerning the number of officers and enlisted men to be assigned as members of the Mission, the War Department will agree to assign one officer with broad experience as a pilot and technical officer, one engineering officer and one enlisted technician as the initial members of the Aviation Mission. These officers will make a full survey of conditions in Venezuela. If they receive sincere cooperation from the Venezuelan Government in increasing the efficiency of the Venezuelan Air Force, additional personnel will be assigned as required.¹⁷

The War Department has also informed the Department that if it develops that the request for an Aviation Mission was made in hopes of securing additional equipment under Lend-Lease and that there is no real desire to increase the efficiency of the Venezuelan Air Force, the Aviation Mission will be recalled with the required 30 day notice.

HULL

831.24/928

The Ambassador in Venezuela (Corrigan) to the Secretary of State

No. 4785

CARACAS, August 28, 1943.

[Received September 7.]

SIR: I have the honor to refer to the Department's instruction No. 1973 of June 21, 1943, enclosing a counter draft of the notes¹⁸ proposed by Venezuela in regard to the Venezuelan ratification of the Agreement relating to the furnishing of defense articles and defense information between the United States and Venezuela, signed at Washington on March 18, 1942.

¹⁶ Not printed.

¹⁷ The agreement was signed at Washington on January 13, 1944. For text, see Department of State Executive Agreement Series No. 398, or 58 Stat. (pt. 2) 1225.

¹⁸ None printed.

In this connection there are enclosed copies of notes numbered 2156 and 2157 both dated August 26, 1943,¹⁹ which I have just received from the Foreign Office. In note No. 2156 the Foreign Minister informed me that in view of the strictly confidential character of the said Agreement, the Venezuelan Government has resolved to postpone the publication thereof in the *Gaceta Oficial*. I have been informed orally that the publication will be postponed until the conclusion of the war.

In note No. 2157, the Foreign Office states that the Venezuelan Government approves the drafts of notes suggested by the Department of State for the purpose of the exchange of notes concerning the Agreement relating to the furnishing of defense articles and defense information.

I am now completing arrangements for the actual exchange of the notes contemplated and when this is effected, I shall send the original of the Foreign Minister's note to the Department along with a certified copy of my note, together with the instrument of ratification to which the notes refer.²⁰

Respectfully yours,

FRANK P. CORRIGAN

831.24/1092

Memorandum by the Liaison Officer (Wilson)

[WASHINGTON,] December 10, 1943.

I asked Colonel Johnston²¹ today whether he could furnish me any information concerning the equipment mentioned by the Venezuelan Ambassador in his note of November 2.²²

Colonel Johnston replied that this list is a huge affair comprising large quantities of various types of munitions of war (for instance 16,000 rifles). Many of these articles are now extremely critical in view of the anticipated military operations abroad and it is, therefore, impossible to supply these to Venezuela.

Colonel Johnston added that further consideration would be given to the Venezuelan list as soon as strategic circumstances permit.

I gather that he has been in touch, concerning this matter, with the Venezuelan Military Attaché, Colonel Jones-Parra.

¹⁹ Neither printed.

²⁰ These documents (none printed), dated September 2, 1943, were transmitted to the Department by the Ambassador in Venezuela in his despatch No. 4808, September 3, 1943.

²¹ Presumably Col. Winant P. Johnston, International Aid Division, War Department.

²² Not printed.

S31.24/1092

The Secretary of State to the Venezuelan Ambassador (Escalante)

The Secretary of State presents his compliments to His Excellency the Ambassador of Venezuela and has the honor to refer to the latter's note of November 2,²³ concerning a request which was presented on July 28 to the International Aid Division of the War Department for military equipment which the Venezuelan Government desires to obtain under the provisions of the Lend-Lease Agreement.

In pursuance of His Excellency's request, this Department invited the attention of the appropriate military officials to this matériel. The latter have replied that they have been giving it their careful consideration and that they hope to be in a position to take appropriate action as soon as the strategic situation permits.

WASHINGTON, December 16, 1943.

S31.24/1092

Memorandum by Mr. B. C. Davis of the Division of the American Republics ²⁴

[WASHINGTON,] December 29, 1943.

In a recent conversation with a member of the Venezuelan Embassy staff, I learned confidentially that one of the items which it is likely that President Medina will discuss during his visit is the acquisition of additional Lend-Lease material, particularly planes for the Army's use. You will recall that we received a note from the Venezuelan Embassy requesting the Department's assistance in obtaining certain Lend-Lease equipment contained in a list presented to the War Department by the Venezuelan Military Attaché, and that a necessarily evasive reply has just been sent to the Venezuelan Embassy.²⁵ I understand that this is a matter in which President Medina has indicated some personal interest.

²³ Not printed.

²⁴ Addressed to the Assistant Chief of the Division of the American Republics (Keith), the Chief of the Division (Bonsal), and the Liaison Officer (Wilson).

²⁵ In a memorandum of January 1, 1944, the Liaison Officer, Orme Wilson, informed members of the American Republics Division that Colonel Johnston (International Aid Division of the War Department) expressed confidence that the War Department could supply some of the articles needed.

ARRANGEMENTS TO PROCURE FOR THE UNITED STATES STRATEGIC
MATERIALS FROM VENEZUELA

811.20 Defense (M) /12280 : Airgram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, February 25, 1943—12:10 p. m.

[Received March 1—noon.]

A-88. My telegram 171, February 12, 9 p. m.²⁶ Further discussion of proposed cinchona agreement²⁷ with Minister of Agriculture²⁸ this morning recorded his continued interest. He stated that thus far he had not been able to obtain figures of Venezuela's needs for essential anti-malarial uses and other data required before further steps can be taken in the negotiation of the agreement. However the Minister realizes the importance and desirability of concluding an agreement along the lines proposed by us and will make every effort to expedite this matter, and promised to keep in touch with us on the developments.

CORRIGAN

811.20 Defense (M) /12356 : Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, March 6, 1943—9 p. m.

[Received March 7—2:09 a. m.]

251. Department's 155, March 4.²⁹ Minister Fomento's³⁰ reply to Embassy's communication based on Department's 35, January 20,²⁹ just received states that Venezuelan Government already has adopted adequate legal measures to control exploitation, trade and exportation of diamonds. Hence Minister considers that preclusive purchase agreement would contribute nothing toward accomplishing desired purpose and might occasion certain difficulties of legal character. He suggests that desired results can be accomplished most effectively if American authorities send competent agents to conduct preclusive buying on the spot in accordance with existing Venezuelan regulations and with or without collaboration of local agents. Finance Ministry

²⁶ Not printed; it indicated a low alkaloid content of the cinchona bark and uncertainty as to the value of exploiting it (811.20 Defense (M)/12029).

²⁷ In instruction No. 1552, December 4, 1942, the Department indicated that the Ambassador should begin negotiations along the line of the accompanying cinchona draft agreement. The objectives were to acquire immediately as much bark as possible at the specified schedule of prices, and to promote a long-time development program for which the United States would make funds, unspecified as to amount, available (811.20 Defense (M)/11215c).

²⁸ Adolfo Rojas.

²⁹ Not printed.

³⁰ Eugenio Mendoza.

will continue restricting issuance required export licenses to United States shipments. Embassy believes this proposal only efficacious method of attaining our purpose. Despatch follows.

CORRIGAN

811.20 Defense(M)/12437

The Ambassador in Venezuela (Corrigan) to the Secretary of State

No. 4109

CARACAS, March 8, 1943.

[Received March 13.]

Subject: Proposed Diamond Purchase Agreement with Venezuela.

SIR: I have the honor to refer to the Department's Telegram No. 155 of March 4, 5 P. M.,³¹ the Embassy's reply thereto by Telegram No. 251 of March 6, 9 P. M., as well as to earlier communications on the above subject, and to report as follows:

Based on the Department's Telegram No. 35 of January 20,³¹ a memorandum dated January 30, 1943, copy of which is transmitted as Enclosure No. 1 to this Despatch,³² was submitted to the Minister of Fomento outlining the principal points to be covered in the proposed diamond purchase agreement from our point of view. On February 3, Mr. Groves, Counselor of Embassy for Economic Affairs, submitted to me a memorandum reporting his latest conversation with the Minister of Fomento on this subject; a copy of this memorandum is transmitted as Enclosure No. 2 to this Despatch.

The reply from the Minister of Fomento to the memorandum of January 30, dated February 27, and received by the Embassy on March 6, is transmitted herewith as Enclosure No. 3.

In substance, the Minister's reply states that all appropriate measures which the Government might take under an eventual preclusive diamond purchase agreement with the United States already are embodied in Venezuelan law, and that the conclusion of a formal agreement, therefore, seems unnecessary to accomplish the desired purpose. The Minister suggests that "more rapid and efficacious results would be attained if the Government of the United States of America, directly or indirectly, by means of competent agents, would buy the diamonds at the very site of production", i.e., would buy them on a commercial basis direct from the producers, before they have a chance to get into other hands.

For this purpose no formalities between the two Governments would be required; it is believed the only requisite would be that any buying

³¹ Not printed.

³² Enclosures to this despatch not printed.

agents who might be sent to Venezuela, to actively conduct diamond purchasing, would have to comply with the conditions of the mining law regarding registration, etc.; pertinent excerpts (in Spanish) of the mining law of 1936 with the amendment of February 12, 1938 to include diamonds, are forwarded as Enclosure No. 4.

The Minister in his communication likewise confirms an assurance previously given to the Embassy by the Minister of Hacienda ³³ that the granting of export permits required for shipment of all industrial diamonds abroad has been, and will continue to be, confined to the United States.

As implied in his communication of February 27, and stated more explicitly by the Minister in conversations with Mr. Groves, the Venezuelan authorities feel that there is little more they can do to make the control of the diamond trade more effective, beyond the measures already in force (see Embassy's Telegram No. 1252 of November 29, 1942, 10 P. M.,³⁴ and excerpts of mining law attached), without modification of the existing basic law, which provides that "the trade in gold (and diamonds by amendment of February 12, 1938) is free". But even with an appropriate modification of the law, the Minister of Fomento doubts whether the Government could establish efficacious controls over the diamond trade without extension of police activities and other methods greatly out of proportion to the significance of the trade.

In view of the peculiar characteristics of diamond production in Venezuela, in a very isolated area where Government controls are virtually non-existent, the Embassy shares the views of the Minister of Fomento that the most practical way of controlling the local trade in diamonds is simply to purchase the output at the source of production. Experience in this country amply indicates that control is next to impossible once the diamonds are sold by the hundreds of individual miners and get into the hands of the trade.

It is suggested, therefore, that the American authorities consider the advisability of sending to Venezuela competent diamond experts to carry out a direct purchase program at the source of supplies. For this purpose, it is probable that the assistance of qualified and reliable persons already engaged in the local trade could be enlisted to cooperate with any agents sent from the United States.

Respectfully yours,

FRANK P. CORRIGAN

³³ Alfredo Machado Hernandez.

³⁴ Not printed.

811.20 Defense (M) / 11215e Suppl. : Telegram

The Acting Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, March 11, 1943—10 p. m.

176. Reference Department's instruction no. 1552, December 4, 1942³⁶ and later telegrams on this subject. In anticipation of the successful conclusion of the cinchona negotiations in Venezuela plans are in the process of formulation for the sending of a representative of the Cinchona Unit of the Board of Economic Warfare to Venezuela to lay the groundwork for our program in that country. His duties are to assemble all available information concerning cinchona resources in Venezuela and if possible to arrange to utilize the services of local botanists and foresters in ascertaining the quality, quantity and accessibility of cinchona stands in Venezuela.

If you perceive no objection, please inquire of the appropriate authorities of the Venezuelan Government whether they would object to our sending a representative to Venezuela for this purpose in advance of the completion of negotiations.

WELLES

811.20 Defense (M) / 12671 : Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, April 2, 1943—4 p. m.

[Received 10:20 p. m.]

332. Department's 126 [176], March 12 [11], 10 p. m. Foreign Minister³⁷ has just advised me in formal note that Venezuelan Government will be very glad to have representative of Cinchona Unit of Board of Economic Warfare come to Venezuela for purpose indicated and to accord him all possible facilities.

CORRIGAN

811.20 Defense (M) / 13533 : Airgram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, June 18, 1943—11:15 a. m.

[Received June 21—3 p. m.]

A-333. For Rosenthal, BEW,³⁸ from Eisenhardt.³⁹ Department's A-645 of June 10⁴⁰ advising delay of cinchona survey until conclusion

³⁶ Not printed, but see footnote 27, p. 801.

³⁷ Caracciolo Parra Pérez.

³⁸ Morris Rosenthal, Assistant Director, Board of Economic Warfare.

³⁹ Karl J. Eisenhardt, Field Representative of Board of Economic Warfare.

⁴⁰ Not printed.

of rainy season, we strongly recommend that you reconsider your decision and make arrangements for promptest possible start.

We have thoroughly checked reliable sources information regarding transportation in prospective cinchona areas and have ascertained that no important delays will be encountered even during heaviest rainy season. Furthermore, we consider that further delays will have detrimental effect on interest already aroused locally for collaboration with our program.

We anxiously await your further advices on this matter. [Eisenhardt.]

CORRIGAN

740.00112 Diamonds/22 : Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, July 24, 1943—7 p. m.

[Received July 25—12:40 a. m.]

662. Department's circular telegram July 19, 10 p. m.⁴¹ Since the only consequential Venezuelan strategic product being diverted to Axis is diamonds, and the only effective method of controlling movement of this product is to buy it from producers before it reaches undesirable hands, I consider it unwise to request Venezuelan authorities to institute additional control measures on outgoing cargo and persons when expected results must be negligible, if diamond buying program now being initiated is effectively pushed.

Venezuelan authorities will be urged to tighten existing control of passenger and ship personnel on all vessels leaving country; but there is no adequate substitute for an effective buying program to control the movement of diamonds. Hence, it is hoped that the much delayed program for buying diamonds (through commercial channels) which is now being initiated with the despatch of OEWS⁴² diamond representatives to Venezuela, will be pushed forward with all vigor.

CORRIGAN

811.20 Defense(M)/13937a : Telegram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, July 26, 1943—10 p. m.

524. For Eisenhardt from Metals Reserve. You are hereby authorized to act for Metals Reserve Company in the purchase of

⁴¹ Not printed; it explained an Anglo-American proposal for controls to halt smuggling to the Axis of strategic materials, chiefly platinum and industrial diamonds (740.00112 Platinum/18a).

⁴² Office of Economic Warfare, supplanting the Board of Economic Warfare.

Venezuelan industrial diamonds in the amount of \$300,000 at prices set forth in detailed instructions being airmailed you today. These prices will apply f.o.b. plane, Venezuelan airports and are the equivalent of prices currently being paid in Brazil. A letter of credit is being opened with Chase National Bank, providing for payment against Seller's invoices, certificates of weight and inspection signed by Eskenazi⁴³ and approved by you, and airline receipts. [Metals Reserve.]

HULL

740.00112 Diamonds/22 : Telegram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, August 6, 1943—10 p. m.

558. Your 662, July 24, in answer to our circular telegram of July 19. Following comments on your conclusions suggested by over-all contraband picture based upon extensive information in our files derived from both sides of Atlantic and from all the various ports of the American Republics:

1. By no means smuggling out of Venezuelan ports need be confined to local products, such as diamonds, but can easily include the products of any other Latin American country, such as Brazilian diamonds, various chemicals widely produced, and Colombian platinum.

2. A serious contraband problem at your ports might still remain even if the new Venezuelan diamond buying program were 100 percent effective.

3. If Venezuelan ports are not similarly protected, improved port controls now being negotiated at other Latin American ports will be ineffective because smugglers can transfer their activities from port to port and will utilize whichever ports are imperfectly policed it is expected.

HULL

811.20 Defense(M)/15067

The Ambassador in Venezuela (Corrigan) to the Secretary of State

[Extract]

CARACAS, December 8, 1943.

[Received December 13.]

SIR: With reference to the Department's instruction No. 1552 of December 4, 1942,⁴⁴ with which was enclosed an original and one copy

⁴³ Leon Eskenazi, assigned to Venezuela by the Board of Economic Warfare in connection with the diamond purchase program.

⁴⁴ Not printed, but see footnote 27, p. 801.

of the proposed cinchona agreement, and to the numerous subsequent communications exchanged with the Department on this subject, I have the honor to enclose a copy of the counter-draft ⁴⁵ which has now been received informally from the Venezuelan Foreign Office. The receipt of this counter-draft represents the culmination of the Embassy's constantly repeated efforts in this matter.

This counter-draft, in conformity with the procedure followed in previous agreements pertaining to Rubber Production, Food Production and Health and Sanitation, respectively, is drawn up in the form of a *Modus Vivendi* for the period of one year, capable of extension at the end of each year on simple notice of willingness to do so, and with the desired maximum period in contemplation specified in the agreement. Thus in this proposed agreement which was projected for a three year period, the culminating date would be 1946 if the agreement is completed in 1943, subject to annual renewal. An agreement of this type does not require Congressional consent, but the Chief Executive is obliged to inform the Congress thereof at the next regular session of that body.⁴⁶

Respectfully yours,

FRANK P. CORRIGAN

ENACTMENT BY VENEZUELA OF NEW LAW FOR CONTROL OF
PETROLEUM INDUSTRY ⁴⁷

831.6363/1383 : Airgram

The Chargé in Venezuela (Flack) to the Secretary of State

CARACAS, January 6, 1943—4:20 p. m.

[Received January 8—3 p. m.]

A-12. My telegram No. 1409, December 29, 9 p. m.⁴⁸ and final paragraph Department's 856 December 26, 8 p. m.⁴⁹ Before returning to New York on December 31, Lieb of Standard told me he approved proposed draft of petroleum law in present or substantially similar form. He expressed opinion that this would benefit industry as a whole, due to more stable conditions expected to ensue, and eliminate constant bickerings between companies and Venezuelan Government.

Hamilton and Greer of Gulf are now in United States.

⁴⁵ Not printed.

⁴⁶ This negotiation was suspended. According to an intra-Departmental memorandum of January 27, 1944, the Department of State changed its position because the supply of low grade bark in the United States was adequate without resorting to Venezuela's low grade bark (811.20 Defense(M)/15366).

⁴⁷ For previous correspondence concerning discussions between the United States and Venezuela regarding proposed legislation for control of petroleum industry in Venezuela, see *Foreign Relations*, 1942, vol. vi, pp. 743 ff.

⁴⁸ Not printed.

⁴⁹ *Foreign Relations*, 1942, vol. vi, p. 754.

British Minister told me recently that Shell, while having minor objections of its own on certain points, would under no circumstances break off negotiations if these were not met, and he expects Shell will consent to adoption of law along lines drafted, considering this will be beneficial to the industry.

Sinclair of Consolidated orally expressed his satisfaction with developments here before leaving prior to Christmas.

Case and Brown of Socony are expected here shortly, accompanying Sheldon when he returns on January 8.

Boylan, local manager of Caracas Petroleum Company, expressed gratification at evidence of inclusion in draft of certain points made by Alfred Meyer, president of the company, in conversations with Thornburg.⁵⁰ Boylan added that while proposed law was somewhat onerous to his company, this did not apply to operations being carried on for it by Texas Company, but to individual holdings now greatly reduced and that if Texas, Socony, etc., could adopt new law, his company would be able to carry on. He mentioned that in his opinion certain rebates provided for pipe lines to seaports would tend to reduce the increased royalty burden.

Lieb informed me when here that after adoption of new law the Venezuelan Government plans to undertake the following:

1. Revision of Customs Regulations
2. Revision of various taxes
3. Propaganda campaign with pictures showing benefits companies are bringing to Venezuela.

He said that ensuing simplification of procedure when these measures were in force would enable considerable reduction in personnel payrolls in future operations and would thus offset increased costs to operating companies so that net increase would probably not exceed 1-2 cents per barrel of crude. A further offset against increased costs would be stabilized concessions and absence of law suits. He said that in any case the increased costs would be much less than in the industry in the United States.

Reliable confidential information reveals that discussions are now in progress in high Venezuelan Government quarters which may lead to adjustment in the conversion tax downward, thus aiding the smaller companies including Pantepec. Also in case of Pantepec possible contractual adjustments with Standard may help. There is no Pantepec representative here at present. Buckley's attitude has not gained any added good will for Pantepec in Venezuelan Government quarters.

It is my judgment that the advantages which the adoption of the new law will apparently provide for the petroleum industry in Venezuela as a whole, will thus be beneficial to the smaller companies and

⁵⁰ Max Thornburg, Petroleum Adviser.

to non-operating companies such as Caracas and Pantepec which derive their income from properties operated by others. On the basis of information at hand, although some minor aspects of the draft are still being considered, it will provide clear titles after adoption, eliminate points of disagreement about past questionable concessions and thus create an atmosphere for healthy development in which the long range interests of all groups will be better served.

Because of the complex and diverse aspects of the oil industry, it does not appear possible to draft a law which would fit all interests perfectly, but it seems axiomatic that if the industry as a whole benefits, its components likewise benefit. In addition, special consideration is being given to aiding the smaller companies if a downward revision of the conversion tax can be accomplished.

The Minister of Fomento ⁵¹ has been taking an increasingly active part in the completion of the draft law and apparently this role has the official approval of Dr. Manrique ⁵² regardless of his earlier contributions toward an amicable agreement and any personal feelings he may have.

Curtice ⁵³ informs me that President Medina has no intention of calling a special session of Congress to consider the draft law until a majority of the companies have indicated their willingness to adopt the draft.

FLACK

831.6363/1400

The Ambassador in Venezuela (Corrigan) to the Secretary of State

No. 3898

CARACAS, January 23, 1943.

[Received January 30.]

SIR: Since my return I have had a number of informal conversations concerning the oil business with regard to the development of the present negotiations. Among the people with whom I have conversed are President Medina and Mr. Curtice, his technical consultant, with regard to the Governmental point of view, Mr. Proudfit, successor of Henry Linam as head of the Standard Oil Company of New Jersey, and Waldo Emerson Sheldon, local head of the Socony Company. In brief, the development seemed to be about as follows:

The basic proposal which was set forth in the letter that Mr. Thornburg wrote to Gustavo Manrique ⁵⁴ found general acceptance. These more or less basic principles having been decided upon and the decks

⁵¹ Eugenio Mendoza.

⁵² Gustavo Manrique Pacanins, Attorney General of Venezuela.

⁵³ Arthur Curtice, American engineer and technical consultant of the Venezuelan Government.

⁵⁴ Not found in Department files.

being thus cleared for action, representatives of the Government and the oil industry sat down to write a basic petroleum law. It appeared as though this law would be written speedily and accepted without delay, but there came a certain public clamor against railroading the law, along with some attacks on Gustavo Manrique, citing his record as a former attorney for the oil companies during the time of Gómez, which caused the President to adopt new tactics. He announced his determination to allow all interests to have a hearing and called in people representing all sectors of public opinion including ministers of former administrations who might now be considered of the opposition. He evidently wished to fortify his position to be able to say that his policy of revision of relations between the nation and the oil companies (now publicized as the *política revisionista*) had had a thorough hearing and that all elements had been able to voice their opinion and give their counsel. He finally named a council of about 18 lawyers and experts headed by Minister of Fomento Eugenio Mendoza to examine the law paragraph by paragraph. Mr. Curtice, the Venezuelan Government's expert informed me that the Commission had about reached Article 35, that there are some eighty odd articles in the law and that some of the most controversial ones have not yet been considered. This of course has slowed things down and at the present rate of progress it seems that it will be at least another month before the work of this Commission will be completed and the law be ready for presentation to Congress.

The President told me that he had been sitting with this Commission as much as two hours a day during the past week, and while it interfered greatly with his many other duties he felt that it was of sufficient importance to make it worth his while to devote to it his personal attention. The exact make-up of the Commission that is now examining the law has never been made public. Even Mr. Curtice, the Government-retained expert, said that he did not know just who constituted the membership. The President told me that there were at least two former Ministers of Fomento, and it is more or less public knowledge that Dr. Egaña, Minister of Fomento under López Contreras, is taking an active part in the conferences. The result of all this seems to be that the originator of the plan, Attorney General Gustavo Manrique Pacanins, seems to have been relegated more or less to the background. . . .

Mr. Proudfit of the Standard Oil Company was very much concerned about a development stemming out of the speech made by the President at Zulia in which he more or less committed himself to the bringing back of the refining operations now located in Aruba and Curaçao to Venezuela as part of its national industrial development. The injecting of this controversial issue into the negotiations has

naturally caused a great concern in oil circles because of the tremendous investments and possible loss that would be entailed by such a transfer.

In my conversation with the President this subject cropped up and he expressed himself in no uncertain terms as to the ultimate intentions of the Venezuelan Government in this regard. I gathered that he intends to insist upon some commitment from the companies that all further extensions of refining operations shall be built on Venezuelan soil. I tried to convince him of the wisdom of keeping this controversial question out of the basic discussions now going on, but not, I felt, with entire success. I feel that there is a more serious side to it than just the interest in development of Venezuela's national industrialization. There is a deep-rooted and bitter feeling of resentment against the Dutch in Curaçao and of course the idea that these islands rightfully belong to Venezuela has strong support, but even aside from this claim there exists a real enmity against the Dutch, a feeling that they are unfriendly and inimical to Venezuelan interests. Should this basic feeling get out of hand and become a political issue it might loom up as a serious obstacle to the smooth working out of the new petroleum law which is in reality a basic treaty between the Government and the oil industry governing the future conduct of the operations in this area.

I have recently discussed the present status of this matter with the British Minister, Mr. Donald St. Clair Gainer, and while retaining his optimism about the prospects for the enactment of a law along the lines now contemplated, he feels that delay in this matter is likely to lead to the injection of political factors which might be able to present considerable opposition to the program adopted by the Government under the guidance of General Medina. However, since Mr. Hoover, the senior negotiator for the Venezuelan Government who is assisting in the drafting of the new law returned to Caracas yesterday from the United States where he has been since December 23 for purposes of consultation with the interested American companies, it is hoped that consideration of the remaining half of the draft of the law will proceed with considerably more despatch.

To complete this picture there is enclosed herewith⁵⁵ a translation of the full text of President Medina's address made at a public meeting in Caracas on Sunday, January 17, 1943, an excerpt from which was furnished in translation in my telegram No. 82 of January eighteenth.⁵⁶ A single copy of the Spanish text of President Medina's remarks is also enclosed.

It is worthy of note that President Medina, while mentioning the

⁵⁵ Enclosures not printed.

⁵⁶ Not printed.

overflowing enthusiasm which prevailed at the meeting, stated that his responsibility required that he ponder over matters and study them thoroughly adding that if he permitted himself to be carried away by the enthusiasm of the moment, he would not be worthy of the confidence of his listeners. Fifty thousand persons are stated to have been present at the demonstration, which while enthusiastic was very orderly.

Although President Medina did not detail the other problems "in need of investigation by the Government" it is generally understood that he here had reference to fiscal matters arising from reduced Government income arising from economic factors such as reduced production of petroleum, reduced imports from the United States and the effect on internal economy and employment of these results of the war.

The public meeting at which the President spoke after 20 other orators had delivered addresses was held under the auspices of the "Comité Directivo de la Concentración de Respaldo a la Política Petrolera" (Directive Committee of the Concentration of Support of the Petroleum Policy). This Committee was composed of the following:

Dr. Manuel R. Egaña
Dr. Enrique Tejera
Dr. Mario Briceño Iragorri
Dr. Leopoldo Manrique Terrero
Sr. Manuel B. Pocaterra
Dr. José Antonio Marturet
Dr. Carlos Irazabal
Dr. Andrés Eloy Blanco
Sr. Alejandro García Maldonado
Sr. Pascual Venegas Filardo
Sr. Calixto Noda
Sr. Nerio Valarino
Srta. Luz Casado Lezama
Sr. Pedro Vallenilla Echeverría
Sr. Raimundo Aristiguieta

The impetus for the formation of this committee emanated from the Association of Venezuelan Writers (Asociación de Escritores Venezolanos) apparently on the suggestion of high officials of the Government with the view of holding a kind of public forum on the petroleum question and giving to the public at large a feeling of responsibility in the decisions to be made and thus anticipate some of the discussions of the proposed new petroleum law which would inevitably take place in the Venezuelan Congress when it is called upon to deal with this matter, and thus shorten eventual discussion in that body.

Respectfully yours,

FRANK P. CORRIGAN

831.6363/1401 : Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, February 5, 1943—4 p. m.

[Received February 6—3:46 a. m.]

137. The heads of all the oil companies operating in Venezuela were summoned to Miraflores at noon today. Each representative was received in separate audience by President Medina and given a copy of final draft of the new petroleum law which the President and his special commission have just finished drafting. The representatives of the largest companies (Van Hasselt of the Royal Dutch and Proudfit of the Standard of New Jersey) were given in addition a draft for a separate agreement binding them to the construction of refineries with a capacity of 8000 metric tons (about 50,000 barrels) per day within 5 years after termination of the war. The refining stipulation to which the companies objected has been kept out of the final draft of the law.

The reaction of the heads of the leading producing companies is generally favorable although each has minor changes to suggest. They have been given 12 days to prepare their reply during which time the staff of the Ministry of Fomento will be ready at all times to discuss details of proposed modifications.

CORRIGAN

831.6363/1406 : Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, February 10, 1943—8 p. m.

[Received February 11—11:49 a. m.]

163. For Bonsal⁵⁷ from Thornburg. New petroleum law progressing along basic lines agreed upon in December and according to present plans will be presented to special session about February 22.⁵⁸ As to detail there has been considerable sharp shooting by subordinates principally on Government side. This has resulted in part from President Medina's decision to refer draft to semi-public commission for criticism before presentation to Congress. This action no doubt strengthened his hand politically but at some cost in technical quality of resulting draft.

I shall have final conversation with President Friday at which I expect refining question to be disposed of satisfactorily. Shall leave here Saturday morning arriving Washington Sunday.

⁵⁷ Philip W. Bonsal, Chief, Division of the American Republics.

⁵⁸ For text of petroleum law approved by Venezuelan Congress on March 13, 1943, see Ley de hidrocarburos, *Gaceta Oficial*, Caracas, March 13, 1943 (núm. 31 extraordinario).

Memorandum on Mexico leaving by courier Thursday morning.
[Thornburg.]

CORRIGAN

**AGREEMENT BETWEEN THE UNITED STATES AND VENEZUELA
GRANTING THE UNITED STATES EXCLUSIVE PURCHASING RIGHT
TO ALL OF VENEZUELA'S EXPORTABLE RUBBER**

[For text of Agreement effected by exchange of notes signed at Caracas, October 13, 1942, and exchanges of notes of October 11, 1943, and October 13, 1944, extending the Agreement, and of September 27, 1944, amending the Agreement, see Department of State Executive Agreement Series No. 446, or 58 Stat. (pt. 2) 1572, 1581, 1582, 1584, respectively.]

**DISCUSSION OF PROBLEMS CONCERNING IMPORTATION OF COFFEE
FROM VENEZUELA TO THE UNITED STATES**

561.333D3/1474

The Ambassador in Venezuela (Corrigan) to the Secretary of State

No. 3923

CARACAS, February 1, 1943.

[Received February 6.]

SIR: I have the honor to refer to the Department's Instruction No. 157 [1571] of December 12, 1942⁵⁹ and to report the following:

Careful consideration has been given by the Embassy to the views of the Department expressed in the instruction under reference, and a number of conferences on the subject have been held with the Venezuelan authorities. The crux of these discussions has been the status of sales contracts negotiated by Venezuelan exporters with American importers prior to the establishment of minimum export prices by the Venezuelan Executive Decree of November 3, 1941. Incident to this question is the dispute as to quantities of coffee actually shipped by Venezuela in the 1941-1942 coffee year.

According to final Venezuelan official figures, the number of bags (60 kilograms) exported by Venezuela to the United States in the 1941-1942 quota year amounted to 527,216 (See December 1942 issue of "Revista del Instituto Nacional del Café", page No. 53), which represents an excess of 75,689 bags over its quota of 431,527. According to the Department's Instruction under reference, receipts in the United States of Venezuelan coffee for this period totalled 430,449 bags, or 1,078 short of its quota.

It has been impossible at this end to determine the reason for

⁵⁹ Not printed; it indicated that Venezuela's coffee quota in the 1941-42 quota year was 431,527 bags of which only 430,449 bags were shipped (561.333D3/1437a).

this marked discrepancy; it might have been caused by loss of shipments at sea, or divergent statistical methods used by the respective export and import authorities. Whatever the cause, it would seem that this question might be clarified, and the methods of determining effective quota shipments settled through the medium of the Inter-American Coffee Board.

With respect to the status of pre-existing contracts, it appears that the Venezuelan Constitution expressly prohibits the retroactive application of laws, (except with respect to questions of procedure, and with respect to Laws reducing the penalty for an offense, which are given immediate application). However, the Minister of Finance,⁶⁰ with whom this question was discussed, continues to maintain that the restrictive measures to which Venezuelan coffee exporters were subjected in 1941 (Executive Decree of February 18, 1941 requiring export licenses, and Executive Decree of November 3, 1941 establishing minimum prices for export), confronted them with a *force majeure* situation which would justify non-fulfilment of pre-existing contracts, in spite of the constitutional provision above referred to. Dr. Machado, the Finance Minister, admitted that there were arguments on the other side as well, based on the desirability of maintaining the *bona fides* of contracts, and good-will between the respective national parties.

He suggested, therefore, that this question of the pre-existing contracts be submitted to arbitration. The question of arbitration was then discussed with Sr. De. Tovar, Director of the Instituto Nacional del Café, who concurred in Dr. Machado's proposal and also believed that the individual exporters concerned would likewise accept the idea. Sr. De. Tovar will consult the exporters to obtain their reactions, and will advise the Embassy of the results. The proposal is: that the Coffee Institute, in agreement with the Venezuelan exporters concerned, should appoint one arbitrator, the American coffee importers involved in such contracts to appoint an arbitrator on their side, and these two to select a third as chairman, the meeting to be held in New York, the decision of the arbitrators to be final and accepted without recourse by both sides; any expense involved in the arbitration to be borne equally by the two sides.

If this proposal is acceptable to the American importers concerned and they are prepared to act upon it, the Department is requested to advise the Embassy as promptly as possible, when steps will be taken at once to effect the appointment of the Venezuelan arbitrator, through the Coffee Institute in order that the arbitration may take place without further delay.

Respectfully yours,

FRANK P. CORRIGAN

⁶⁰ Alfredo Machado Hernandez.

561.333D3/1474

The Secretary of State to the Ambassador in Venezuela (Corrigan)

[Extracts]

No. 1715

WASHINGTON, February 17, 1943.

The Secretary of State refers to the Embassy's despatch no. 3923 of February 1, 1943 on the subject "Issues Arising from Venezuelan Coffee Control Measures", in which reference is made to the suggestion of the Venezuelan Minister of Finance that existing difficulties between Venezuelan exporters and American importers be submitted to arbitration.

This same problem is now under active discussion in New York between a committee representing American importers and Mr. Alarcon, representing Alarcon Hermanos. In this connection there are transcribed below comments which the chairman of this committee has made under date of February 5, 1943:

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In the light of the foregoing information, the Department believes it preferable for any arrangements which may be made for the arbitration of the question to be made by the interested parties, without the active intervention of the Embassy in the matter. It is assumed that the responsible Venezuelan authorities are in touch with Alarcon Hermanos and any other Venezuelan firms that may be affected, and will be glad to lend their assistance toward bringing about an early and equitable solution.

831.61333/63

Memorandum by Mr. L. J. Falck of the Division of International Communications to the Assistant Chief of the Division of the American Republics (Daniels)

[WASHINGTON,] September 4, 1943.

MR. DANIELS: The matter of providing facilities for shipments of Venezuelan coffee to New York has been discussed with Mr. Corbett in the War Shipping Administration. After checking up on various points Mr. Corbett gave me the following information.

He stated that it is perfectly true that New York as well as other Atlantic ports are rather fully occupied at present to the extent that it is not desired to run additional vessels to them. Probably most of the UK ⁶¹ cargo goes through New York and you will recall that recently the press carried a story of shortage of water-front labor there. He indicated that it would probably not be possible to give

⁶¹ United Kingdom.

much consideration to the Venezuelan request as long as the Atlantic ports were so occupied.

In response to my inquiry as to services from Colombia, he informed me that only about ten per cent of the Colombian coffee from the north coast came to New York, and that was by transshipment at the Canal. Most of the Colombian west coast coffee, however, comes into New York. It would appear, therefore, that the Colombian area adjoining Venezuela have very little advantage in this respect.

800.8830/2449

The Venezuelan Chargé (Lares) to the Secretary of State

[Translation]

The Chargé d'Affaires of Venezuela presents his compliments to His Excellency the Secretary of State and has the honor to advise him of the following:

By note No. 3009 of the ninth instant,⁶² the Embassy referred to the difficult situation with which the coffee operations of Venezuela are confronted in view of the fact that the greater part of the steamers sailing from Venezuela, with coffee shipments, arrive at New Orleans or Mobile and not at New York, which is the principal and traditional market for the sale of our coffee. On the other hand, the vessels which come from Brazil and Colombia arrive directly at New York.

The payment of the railway freight for the transportation of Venezuelan coffee from New Orleans or Mobile to New York was absorbed to the extent of 75%, under certain conditions, by the Commodity Credit Corporation, thereby providing relief as regards expenditures.

The situation has now become much more difficult due to the fact that, as of August 25 last, the Commodity Credit Corporation eliminated the subsidy which it had been paying to the coffee trade. Consequently, the payment of 75% of the freight over the land route New Orleans or Mobile—New York is completely eliminated for the future.

In view of the fact that the situation with respect to the sale of our coffee is now becoming increasingly difficult and is causing, as a result, harm to Venezuelan economy, the Chargé d'Affaires of Venezuela will be very grateful to His Excellency the Secretary of State for the co-operation which he may be able to give with a view to arranging for the transportation of our coffee intended for the United States directly from Venezuelan ports to New York, thus placing us on an equal footing with Colombia and Brazil, whose coffees arrive directly at that port.

WASHINGTON, September 6, 1943.

⁶² Note of August 9, not printed.

800.8830/2449

*The Assistant Secretary of State (Acheson) to the War Shipping
Administrator (Land)*

WASHINGTON, September 18, 1943.

MY DEAR ADMIRAL LAND: In your letter of August 25, 1943⁶³ you indicated that it would not be practicable or advisable to permit direct vessel service from Venezuela to New York, as had been requested by the Venezuelan Ambassador in a communication to the Department of August 9, 1943.⁶³

In view of the importance to Venezuela of such direct shipments, particularly with reference to the movement of coffee to this market in competition with other countries, the matter has been the subject of further oral discussion between officials of the Department and the War Shipping Administration in order to see if a more satisfactory reply could not be made to the Venezuelan Government. In the meantime another communication has been received from the Venezuelan Embassy dated September 6, 1943, a translation of which is attached,⁶⁴ again urging that some action be taken on the matter. The Venezuelan Embassy now points out that as a result of the recent cancellation of the subsidy on railway freight previously granted by the Commodity Credit Corporation, the added cost of hauling coffee overland from New Orleans or Mobile to New York prejudices still further the position of Venezuelan coffee.

The total tonnage of coffee involved in the Venezuelan request is not, relatively speaking, very large, in as much as the entire Venezuelan coffee quota for the United States during the coming quota year is only 462,000 bags of 60 Kgs. each. In view of the small tonnage involved and bearing in mind the strain under which our interior rail transportation is now operating, I should be most grateful if you would give reconsideration to the Venezuelan request in the light of the new circumstances set forth in the Venezuelan communication of September 6, 1943.

Sincerely yours,

[DEAN ACHESON]⁶⁵

⁶³ Not printed.

⁶⁴ *Supra.*

⁶⁵ File copy not signed but presumably signed by Assistant Secretary Acheson. File copy stamped "A true copy of the signed original."

800.8830/2449

The Secretary of State to the Venezuelan Ambassador (Escalante)

The Secretary of State presents his compliments to His Excellency the Ambassador of Venezuela and has the honor to refer to the latter's communication of August 9, 1943,⁶⁶ and to a subsequent communication from the Chargé d'Affaires, dated September 6, 1943, regarding the hardship suffered by the Venezuelan coffee industry because of the necessity for shipping Venezuelan coffee to the ports of Mobile and New Orleans, rather than directly to New York.

This problem was taken up with the War Shipping Administration on the basis of the first of the two communications referred to above, and a letter was received in reply from that agency in which it was stated that the need for the facilities of the United States North Atlantic ports for vessels in military and naval services, under existing conditions, was such that it was not practicable or advisable to transfer additional civil or commercial vessel service to those ports.

The matter was further discussed with officials of the War Shipping Administration, and the new circumstances referred to in the Embassy's memorandum of September 6, 1943 brought to the attention of that agency. After careful reconsideration, the War Shipping Administration addressed a further letter to the Department of State, dated September 30, 1943, a copy of which is attached,⁶⁶ maintaining the position that at this time it is impracticable to add additional commercial vessel service to North Atlantic ports.

In recognition of the interest of the Government of Venezuela in this matter, the Department will continue to give it its active attention, in cooperation with the War Shipping Administration, in the hope that as soon as military and naval requirements may justify such action it will be possible to satisfy fully the request of the Venezuelan Embassy.

WASHINGTON, October 11, 1943.

AGREEMENT BETWEEN THE UNITED STATES AND VENEZUELA REGARDING THE DEVELOPMENT OF FOODSTUFFS PRODUCTION IN VENEZUELA, EFFECTED BY EXCHANGE OF NOTES, SIGNED MAY 14, 1943

[For text of notes, see Department of State Executive Agreement Series No. 333, or 57 Stat. (pt. 2) 1031.]

⁶⁶ Not printed.

**EFFORTS TO COOPERATE WITH THE VENEZUELAN GOVERNMENT IN
THE CONTROL OF FINANCIAL TRANSACTIONS AND IN RAILROAD
MANAGEMENT INVOLVING THE AXIS**

831.77/147

The Secretary of State to the Ambassador in Venezuela (Corrigan)

No. 1732

WASHINGTON, February 23, 1943.

SIR: Reference is made to the Embassy's despatch no. 3665 dated December 21, 1942, and the attached copies (original and translation) of memorandum no. 67 from the Venezuelan Embassy ⁶⁸ concerning the proposed purchase of the railroad between Caracas and Valencia. It is the wish of the Department that you discuss this matter personally with the appropriate officials of the Venezuelan Government.

The position of the Department with regard to the proposed purchase may be summarized as follows:

The Department views with sympathetic interest the desire of the Venezuelan Government to nationalize this link in the Venezuelan transportation system, since this would, in accordance with Resolution VII of the Washington Conference,⁶⁹ result in eliminating from the economy of Venezuela interests inimical to the security of Venezuela and of the hemisphere.

In as much as the Venezuelan Government recognizes that the railroad is beneficially owned by Germans now located in Germany, the Venezuelan Government should be willing, in accordance with paragraph (d) of Resolution VII and in order to protect the security of Venezuela and of the hemisphere, to immobilize completely for the duration of the war any payments made to the Spanish agents of the controlling German interests.

Furthermore, in accordance with paragraph (b) of Resolution VII, the Venezuelan Government should be willing to take appropriate steps to remove undesirable officers and employees from the staff of the railroad, and to block the severance payments to which they may be entitled. It is recognized that some difficulties may be encountered in connection with replacement of undesirable technical personnel. However, it is believed that satisfactory measures can be worked out by the Venezuelan Government in consultation with the Embassy.

As you know, it is the policy of this Government, in so far as it is consistent with the broad requirements of hemispheric defense, to furnish materials essential to the maintenance of the vital public utilities of the other American republics. Accordingly, you may assure

⁶⁸ Neither printed.

⁶⁹ For text of the resolution, see Pan American Union, Congress and Conference Series No. 39: *Final Act of the Inter-American Conference on Systems of Economic and Financial Control* (Washington, 1942). For correspondence on this Conference, held June 30–July 10, 1942, see *Foreign Relations*, 1942, vol. v, pp. 58 ff.

the Venezuelan Government that, if the payments to the Spanish agents are made in funds blocked for the duration of the war, and if appropriate steps are taken with respect to undesirable personnel, any application for the export of supplies necessary to the maintenance of the railroad will be promptly and sympathetically considered in the light of similar requirements by other comparably vital enterprises which are free from Axis influence.

However, if, as indicated in the Embassy's despatch, it is not proposed to block the proceeds of the sale, and the sale will therefore result in making available free credits to the German owners, it is the Department's view that the transaction would be prejudicial to hemispheric security. The danger would, of course, be aggravated if payment were made in Spanish or Swiss currency. The Department understands that in discussions with the Venezuelan authorities concerning the problem raised by the German ownership and control of this railroad, the Embassy has repeatedly urged that the proceeds of any sale should be effectively blocked, and it is felt that any recession from this position would undermine all future attempts to stimulate the implementation of the Washington resolutions by the Venezuelan Government with a view to remedying the existing deficiencies in Venezuelan control measures. These deficiencies have, as you know, been a source of grave concern to the Department. Accordingly, it appears highly desirable that the Embassy maintain its position with respect to the blocking of the funds in the present case.

You will note from the Venezuelan memorandum that the Venezuelan Government apparently feels that two problems would be raised by any taking over of the railroad other than by voluntary transfer: (1) the problem of adequate legal authority; and (2) the possibility that the valuation of the railroad by a board of experts, which apparently would be required in connection with a forced sale, might be considerably higher than the price at which the railroad is now being offered.

If a forced sale is required to secure blocking of the proceeds, and if the issue of confiscation is raised by the Venezuelan authorities, it would appear desirable discreetly to point out that confiscation is not necessary in order for Venezuela to eliminate the Axis interests in fulfillment of her inter-American commitments, since a forced transfer with blocking of compensation would be adequate, and would not constitute confiscation. In this connection you may wish to inquire whether Article 4 of Decree No. 93, promulgated on May 7, 1942, which authorizes the requisitioning of Venezuelan railroads when such action is necessary in the interest of that nation's transportation, does not afford an adequate legal basis for a forced transfer. If it does

not, you may wish to suggest the desirability of a new enabling decree pursuant to Article 36 of the Venezuelan Constitution.⁷⁰

With respect to the possibility that a forced transfer of the railroad (in proceedings comparable to those taken against the German and Italian ships to which reference is made in the memorandum) might involve greater costs, it would appear desirable to inquire whether, under Venezuelan law, the price at which the owners were willing to sell voluntarily would not be the best evidence of the value of the railroad, and, therefore, the maximum amount of compensation which would be allowed in legal proceedings.

You may also wish to consider the desirability of suggesting to the Venezuelan Government that in view of the character of this railroad's ownership and the danger inherent therein to the security of Venezuela and of the hemisphere, this Government is prepared to assist the Venezuelan Government to avoid excessive payment on behalf of the Axis interests by including the railroad in the Proclaimed List. Such action would probably drive down the value of the railroad in any legal proceedings incident to a forced sale. Moreover, the listing of the railroad would strengthen the legal basis for a forced sale by making it clear that the supplies essential to continuance of service would not be furnished by the United States. In this connection, the Department recognizes the practical difficulties that might be occasioned by listing, and suggests that listing be proposed only in aid of the Venezuelan desire to nationalize the railroad on terms most advantageous to the Venezuelan Government. Any listing would, of course, have to be synchronized with legal proceedings designed to effect the forced transfer of the railroad. It would assist the Department in dealing with this problem if you would indicate whether the railroad presently carries materials required by our war effort.

With reference to the statement in the Venezuelan memorandum that the railroad is "property of a company which is a national of a country like Spain which is not only not at war with the Allied Nations, but which maintains normal relations with Venezuela", the Department invites your attention to the Censorship Intercept forwarded to the Embassy on January 14, 1943,⁷¹ which discloses the fact that the Spanish Diplomatic Pouch has been used to keep the Venezuelan railroad in communication with Berlin.

Finally, you may wish to evidence the Department's sympathetic interest in the maintenance of this vital public utility by inquiring whether the schedule of materials and spare parts essential for repair

⁷⁰ This provides for a limitation on the suspending of civil guarantees except in defense of the nation.

⁷¹ Not found in Department files.

and maintenance submitted by the Gran Ferrocarril de Venezuela to the Ministry of Fomento, a copy of which was enclosed in the Embassy's report no. 34, under date of September 18, 1942,⁷² is still current. In the event that a satisfactory plan is worked out, a current statement of the minimum, absolutely essential requirements will be helpful in expediting any assistance which the Department is able to give.

The attitude of the Department toward the proposed transfer will also be set forth in conversations which will be held with representatives of the Venezuelan Embassy in Washington.

Very truly yours,

For the Secretary of State:

DEAN ACHESON

831.77/147

*The Department of State to the Venezuelan Embassy*⁷³

MEMORANDUM

The Department of State views with sympathetic interest the desire of the Venezuelan Government to nationalize the railroad which runs between Caracas and Valencia. This railroad, as presently owned and controlled, is deemed by this Government to endanger hemispheric security, and the Department desires, within the framework of the common objectives of hemispheric defense, to cooperate fully with the Government of Venezuela in connection with a plan to eliminate from this railroad all interests or personnel prejudicial to hemispheric defense.

It is the view of this Government, however, that any transfer which would make free funds available to the German owners of the railroad, would be extremely prejudicial to hemispheric security. This Department is confident that the Venezuelan Government fully realizes the value to the Axis of a direct payment in free funds and the danger inherent therein to the security of this hemisphere. Accordingly, it is assumed that if the German owners of the railroad refuse to accept payment in funds effectively blocked for the duration of the war, the Venezuelan Government intends to effect the replacement of the Axis ownership on some basis other than a voluntary sale.

It is noted that the memorandum from the Venezuelan Embassy⁷⁴ suggests that the nominal ownership of the railroad by a Spanish national may impede nationalization in the event that the German interests are unwilling to agree to a transfer with blocked proceeds.

⁷² Not printed.

⁷³ Handed to the Venezuelan Ambassador, Diógenes Escalante, by Assistant Secretary of State Acheson.

⁷⁴ No. 67, not printed.

In this connection, it appears appropriate to state that the whole inter-American control program embodied in the Resolutions adopted at the Rio⁷⁵ and Washington Conferences rests on the standard of real, as distinguished from formal, ownership and control. This standard was deemed necessary for the protection of hemispheric security because the aggressor nations have assiduously attempted, and are continuing to attempt to elude effective control by establishing fictitious forms of ownership. The American republics would be submitting to this obvious Axis stratagem, with serious detriment to the security of this hemisphere, if they should fail to search for, and to act in the light of, the realities of ownership, in the administration of their control measures. In view of these considerations, the fact that legal title is in a Spanish national will not, the Department is confident, preclude the Venezuelan Government from taking such measures with respect to the railroad as are required by hemispheric security.

The Department notes from the memorandum under reference that the railroad is in need of maintenance equipment. It is the desire of this Government to reduce to a minimum any inconvenience which may result to the Venezuelan economy through the application of controls upon the export of material from the United States. As the Venezuelan Government will appreciate, however, these controls must be applied in the light of the broad objectives of hemispheric defense, and of the requirements of enterprises which leave no doubt as to their complete loyalty to these objectives.

This Government will be pleased to receive such further comments as the Venezuelan Government may wish to present with reference to the plan for nationalization of this railroad.

WASHINGTON, March 2, 1943.

840.51 Frozen Credits/9694a : Airgram

*The Acting Secretary of State to the Ambassador in Venezuela
(Corrigan)*

WASHINGTON, March 4, 1943—8 p. m.

A-418. The Venezuelan Embassy has informally requested the views of the Department on the contemplated forced conversion of Axis frozen assets in Venezuelan banks into Venezuelan Government bonds.

⁷⁵ For text of the resolutions of the Third Meeting of the Foreign Ministers of the American Republics, held at Rio de Janeiro, January 15-28, 1942, see Department of State *Bulletin*, February 7, 1942, pp. 117-141. For correspondence concerning the meeting at Rio de Janeiro, see *Foreign Relations*, 1942, vol. v, pp. 6 ff.

The Department would appreciate having the Embassy's comments on this proposal. Relevant considerations would seem to be (1) comparison of interest rates as between blocked accounts and bonds; (2) the necessity for financing the proposed bond issue through conversion of frozen assets; (3) the possibility that increased revenue to undesirables, even though blocked, would increase their willingness to finance undesirable activities with their free funds. From such information as the Department has available, it would seem that the genesis of this proposal may well be pressure brought on the Venezuelan Government by the owners of blocked accounts.

For the Embassy's information, the Department interposed no objection to the forced conversion of blocked accounts in Costa Rica into Costa Rican Government bonds.

WELLES

840.51/Frozen Credits/9810

The Ambassador in Venezuela (Corrigan) to the Secretary of State

[Extracts]

No. 4119

CARACAS, March 15, 1943.

[Received March 20.]

SIR: I have the honor to refer to Department's Airgram No. A-418 dated March 4, 1943, 8 p. m. relative to the informal request of the Venezuelan Embassy for the views of the Department on the contemplated forced conversion of Axis frozen assets in Venezuelan Banks into Venezuelan Government Bonds.

Several of the terms used in the request are confusing to the Embassy because

1—"Axis frozen assets in Venezuelan Banks" can mean either those funds controlled under the Venezuelan Executive Decrees of December 11 and 16, 1941, with which "normal and legitimate" transactions are freely permitted, or "specially blocked accounts" which are those accounts specially blocked as a result of the Consultative Procedure (See page 4 of Embassy Despatch No. 3690 of December 28, 1942),⁷⁶ which funds the Embassy has been told by the Consultative Commission and the Superintendent of Banks are absolutely immobilized in so far as the beneficiary is concerned.

2—The term "forced conversion" is not understood in that the Venezuelan Authorities have indicated that although they can control the blocking of funds they have no authority under existing Decrees to oblige the investment thereof in any particular way.

The matter of investing Axis assets in Venezuelan Treasury Bills (*Letras del Tesoro*) first came to the attention of the Embassy when two Germans whose funds are controlled by the Executive Decrees

⁷⁶ Not printed.

under reference requested of the Minister of Finance (Hacienda) that these funds be invested in Treasury bills. The matter was referred to the Venezuelan Consultative Commission and, when raised in consultation with the Representatives of the Embassy, the Commission itself determined that this should not be permitted. (Reference is made to page 2 of the enclosure No. 2 to Embassy Despatch No. 3494 dated November 21, 1942.)⁷⁷ It is understood that Venezuela has not found it necessary to raise funds by the issuance of Government securities for some fifty years until the issue of Bs.4,500,000. was sold in November, 1942. The inquiry made of the Ministry of Hacienda, hereinabove referred to, was with regard to this issue.

In February, 1943, a second issue in the amount of Bs. 5,000,000. was sold and about that time the Superintendent of Banks, Dr. Ernesto G. Permuy, approached the office of the Commercial Attaché to this Embassy and explained that one of the purposes of issuing Treasury bills was to combat the inflationary trend of Venezuelan currency, hence the Government preferred that the issue be purchased by the public generally rather than by commercial banks in Venezuela, and stated that all Proclaimed List firms of any financial significance, in addition to having withdrawn considerable cash from their bank deposits just prior to the effective date of the Venezuelan Decrees, carried on their businesses on a strictly cash basis and maintained considerable funds in cash in their respective safes and cash drawers. He added that he had exerted his best efforts by persuasion to get these funds deposited in local banks but his efforts had proven fruitless in that he did not have the legal authority to oblige it and the parties concerned refused to comply with his requests. He felt, however, that these firms might be inclined to invest a part of these funds in Treasury bills and he requested the attitude of the American Authorities with regard thereto. It is known to be a fact that these firms maintain considerable amounts in Venezuelan currency in their cash drawers. The recent balance sheet of Frey & Company (PL) shows a cash balance of Bs. 250,000.

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It is understood that the Commercial Banks in Venezuela have offered to purchase the entire output of Treasury bills but, as hereinabove stated, it is preferred that the general public make such purchases. Although it has been made public in each instance that the issue was over-subscribed, such does not truly reflect the facts in that of each issue the Government was obliged to sell to Commercial Banks from Bs. 1,000,000. to Bs. 1,500,000. worth. This has been partially explained in that the general public in Venezuela is not educated in

⁷⁷ Neither printed.

the matter of investing in Government securities. Therefore, with regard to item numbered (2) on relevant considerations in the Airgram under reference, although it should not be necessary for the financing of the bill issues to utilize Axis frozen assets, the Venezuelan Government would probably welcome this possibility in order to reduce that part of the issue purchased by Commercial Banks.

With regard to item numbered (3) on relevant considerations of the possibility that increased revenue to listed parties, even though blocked, would increase their willingness to finance undesirable activities with their free funds, any expression by the Embassy would be purely conjectural, in that all Venezuelan firms of any significance included in the Proclaimed List have sufficient free funds, so that any such inducement by reason of permission to invest in these Government bills probably would be insignificant.

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It is the Embassy's considered opinion that no concession should be made on this score unless the Venezuelan control of undesirables is strengthened. It is recalled that the Venezuelan Control Decrees were enacted prior to the Conferences at Rio de Janeiro and Washington, and although the law as written was considered satisfactory, its administration is quite ineffective. If the means proposed can be used to oblige the investment of *cash* held by undesirable persons and firms in Venezuelan Treasury bills and the interest accruing thereon, as well as the principal collected upon maturity, is effectively controlled by the Venezuelan Government, the proposal may well be given serious consideration. If the proposal is meant to include only those funds specially blocked as a result of the Consultative procedure, it is suggested that the Department should refuse its approval. If the proposal has reference to those funds controlled under the Decrees of December 11 and 16, 1941, which is doubted, it is suggested likewise that the proposal be considered unfavorably.

This request for the Department's views may well lend itself to a reply forcefully suggesting a strengthening of local Controls which by a considerable number of important people here is believed to be all that is necessary for the Venezuelan Government to aggressively approach the problem of Economic Warfare. The very fact that the views of the Department are requested in this regard lends credence to this belief.

Respectfully yours,

FRANK P. CORRIGAN

740.00112A European War 1939/27680

The Ambassador in Venezuela (Corrigan) to the Secretary of State

No. 4160

CARACAS, March 17, 1943.

[Received March 27.]

SIR: I have the honor to report that reliable information obtained by the Embassy indicates that commercial banking institutions in Venezuela, although probably extending no new credits to Proclaimed List Nationals, do continue to maintain the lines of commercial credit which were available to such Proclaimed List Nationals at the time of their inclusion in the List. It would seem therefore that, with the exception of obtaining new credits, persons and firms included in the Proclaimed List have available to them normal banking facilities much as they had prior to their inclusion in the List; furthermore, this procedure is foreseen and approved by the Venezuelan Authorities under Articles 3 and 4 of the Executive Decree of December 11, 1941, as evidenced by the monthly issuance of licenses by the Banco Central de Venezuela to the Commercial Banks authorizing the continuance of such credits.

It is understood and believed that the various commercial bankers in Venezuela are pro-Allied in political sympathy, and most of them have indicated to members of the Embassy staff a personal desire to terminate such credits made available to Proclaimed List Nationals and to call in outstanding obligations from them; but they indicate hesitancy to take this step in view of the fact that these transactions are not prohibited by the Venezuelan Controls and, as indicated, are specifically approved by the licensing operations of the Banco Central. Several of them have said they would welcome some concrete evidence of concern regarding this situation on the part of the Embassy on which they could base a step in this direction.

For this purpose, Mr. Groves, Counselor of Embassy for Economic Affairs, addressed a letter dated March 16 (transmitted as Enclosure No. 1 to this Despatch⁷⁸) to the Superintendent of Banks, calling attention to this situation and pointing out that the practice would seem to contravene the spirit, if not the letter, of resolutions at the Rio de Janeiro meeting of Foreign Ministers in January 1942, as well as the recommendations adopted at the Inter-American Conference on Systems of Economic and Financial Control, in Washington last July. Furthermore, it has been pointed out verbally to the Superintendent of Banks that utilizing American credit via the local Banks to support business operations of Proclaimed List firms contravenes our Trading with the Enemy Act just as much as would the sale of American steel to a Proclaimed List firm by a local importer.

⁷⁸ Not printed.

The Superintendent of Banks has called a meeting of the commercial bank managers for March 23, at which the question of extending credit facilities to Proclaimed List firms will be discussed, and presumably the banks' policy in this regard determined. The Embassy has verbally suggested to the Superintendent of Banks that the commercial credits outstanding in favor of Proclaimed List firms or individuals may be liquidated gradually over a period of perhaps six months at the outside, in order that problem of unemployment and other disturbance to the national economy be minimized as far as possible.⁷⁹ And the hope was expressed that this process might result in the entire elimination from Venezuelan economy of the major enemy interests and the acquisition of those interests by sympathetic Venezuelan Nationals.

The Department will be kept advised of subsequent developments in this matter.

Respectfully yours,

FRANK P. CORRIGAN

740.00112A European War 1939/29679

The Ambassador in Venezuela (Corrigan) to the Under Secretary of State (Welles)

CARACAS, March 17, 1943.

DEAR MR. WELLES: Dr. Parra Pérez⁸⁰ today requested that I write to you regarding the desire of the Venezuelan Government to purchase the railroad which runs from Valencia to Caracas. This is normally and legally a Spanish-owned company but the majority interest is known to be German. The heavily interested Spaniard has a Venezuelan wife. The Venezuelan Government desires to obtain the railroad by purchase since any other more summary procedure would raise an issue with Spain, a neutral country with which Venezuela has consistently maintained close and friendly relations regardless of the transitory character of its recent Governments. If they took over the property they would then have to submit to an evaluation which the Minister thinks would reach or exceed 50 million Bolivars, whereas it could probably be bought for around 5 million Bolivars in free Spanish exchange.

In a few words, the Minister wants our help in getting a bargain for the nation. A balance must be struck between the evil of leaving this important strategic railroad in Axis hands and the evil that would come from allotting to the owners the amount of free exchange

⁷⁹ The Ambassador reported in his despatch No. 4444, May 27, 1943, that 14 banks concluded on May 12, 1943, an agreement to eliminate, in a period of nine months, all credit facilities extended to firms on the Venezuelan Control List (740.00112A European War 1939/31736).

⁸⁰ Caracciolo Parra Pérez, Venezuelan Minister for Foreign Affairs.

required for outright and immediate purchase. The funds would most likely remain in Spain or Venezuela as a hedge against post war conditions on the part of the owners.

Could an exception be made in funds control in this case in view of the other important considerations?

Sincerely yours,

FRANK P. CORRIGAN

740.00112A European War 1939/22856

The Secretary of State to the Ambassador in Venezuela (Corrigan)

No. 1822

WASHINGTON, April 8, 1943.

SIR: Reference is made to consular despatch no. 365 from Maracaibo dated December 24⁸² concerning efforts made by pro-Nazi elements in Venezuela to obtain publicity adverse to the Proclaimed List and to discredit it in the eyes of the Venezuelan public.

The Department believes that it is desirable to consider possible steps to meet attempts of this nature and, in addition, to obtain as wide a distribution of the Proclaimed List as may be practicable for the purpose of securing its widespread observance by the Venezuelan public and to assure that Venezuelans have an adequate realization of the purposes and significance of the Proclaimed List program. Two things specifically would appear to be possible at this time.

The first would be an augmenting of the efforts to distribute copies of the list in Venezuela. Your despatch no. 3299 of October 26, 1942⁸² indicates that only 200 copies of the list are regularly duplicated and that considerably less than this find their way into the hands of Venezuelan individuals and firms. This number is considerably less proportionately than the number distributed by other missions. It is, therefore, suggested that you consider the feasibility of making a wider distribution of the list to business concerns, chambers of commerce, druggists, doctors, banks, trucking companies, forwarding and dispatching agents, shipping companies, pro-democratic and other appropriate organizations, citizens of the United States, and particularly to all individuals or companies who are believed to be trading with listed firms.

It is further suggested that members of your staff discreetly enlist the cooperation of persons of known pro-allied sympathies in publicizing the objectives of the Proclaimed List. It is recognized that any publicity sponsored officially by the Embassy would be discounted as self-serving and that what this Government does with the Proclaimed List is less open to attack than anything said in defense of such action. However, wherever it is deemed feasible to channel information to

⁸² Not printed.

reliable Venezuelan newspaper men, radio commentators, and others who formulate public opinion, it would seem desirable to do so. In the Department's view, such publicity should stress the economic and propaganda interpenetration of the American republics by Axis agents; the hazard to the security of the hemisphere through the continuance of such activities; the fact that the amount of goods exported to Venezuela has been determined by supply considerations and available shipping space, and that only the distribution of this over-all fixed total has been affected by the existence of the Proclaimed List; that shipping shortages are directly related to the subversive activities of the Axis in this hemisphere. With respect to injuries to the Venezuelan economy through the application of United States export controls, it is the earnest desire of this Government to reduce to a minimum any inconvenience to the Venezuelan economy; such controls must, however, be exercised in the light of the broad objectives of hemispheric security and of the requirements of enterprises whose loyalty to these objectives is unquestioned.

The enclosure to this instruction ⁸³ sets forth the "lore" of the Proclaimed List for such use as officers of the Embassy may wish to make of it.

Very truly yours,

For the Secretary of State:
DEAN ACHESON

840.51 Frozen Credits/10346

*The Venezuelan Minister for Foreign Affairs (Parra-Pérez) to the American Ambassador in Venezuela (Corrigan)*⁸⁴

[Translation]

CARACAS, April 14, 1943.

MR. AMBASSADOR: I have the honor to communicate to Your Excellency that the Swiss Legation in France has made it known to the Government of Venezuela that the Municipality of Paris is now claiming payment of taxes due on the property of the following Venezuelan citizens: Rafael D. Revenga, Juan S. Mendoza, Lorenzo Mendoza, Elisa Mendoza de Rodríguez Azpúrua and the heirs of Luis Nuñez. The total amount owing is approximately 100,000 French Francs, which must be paid as soon as possible inasmuch as the French authorities threaten to proceed to auction off the debtors' property.

As a measure of protection of the legitimate interests of its nationals, which would suffer grave damage because of said non-payment, the Government of Venezuela has decided to authorize the exporta-

⁸³ Not printed.

⁸⁴ Copy transmitted to the Department by the Chargé in Venezuela in his despatch No. 4368, May 5; received May 10.

tion of the required funds and has accepted the offer made by the Swiss Government to effect such payment for the account of the interested parties and consequently trusts that the Government of the United States of America will be good enough to issue the necessary instructions to the appropriate authorities so that the credit houses in that country may offer the necessary banking facilities for the remittance of said funds to the Swiss Government.

I take this opportunity [etc.]

C. PARRA PEREZ

740.00112A European War 1939/29679

*The Under Secretary of State (Welles) to the Ambassador in
Venezuela (Corrigan)*

WASHINGTON, April 17, 1943.

MY DEAR AMBASSADOR: I have given the most careful study to your letter of March 17 in which you refer to Dr. Parra Pérez' request regarding the railroad which runs between Caracas and Valencia. It is my understanding that Dr. Parra Pérez has asked us to approve the purchase by the Venezuela Government of this railroad even though free funds are paid to the Germans who own a majority interest. As you know, I am anxious to resolve every doubt in favor of granting any request made by Dr. Parra Pérez. In this case, however, although all of us here in the Department feel that the nationalization of this railroad and the elimination of its undesirable personnel would be highly desirable, we cannot approve its acquisition on the terms proposed by Dr. Parra Pérez.

The difficulty is that the problem is not the narrow one of striking a balance between the evil of leaving the railroad in Axis hands and the evil of supplying foreign exchange to our enemies. Our approval of this transaction would, I believe, constitute a violation of our commitments to hemispheric security. As a signatory to the Rio and Washington Resolutions, this Government is pledged to avoid transactions which will make free foreign exchange available to the aggressor nations. Our approval in this case (with its implicit promise that equipment necessary for the maintenance of the road would be furnished) and the consequent increase of Axis resources, would not differ in essence from a direct remittance of foreign exchange from the United States to Germany in clear contravention of our Inter-American commitments.

A second broad aspect of the problem is that our approval of the proposed transaction would, I believe, undermine all attempts to secure effective economic controls in Venezuela. As you know, the railroad is popularly known as the "German railroad"; its present ownership and personnel are a threat to Venezuelan and hemispheric

security; it is a symbol, in a sense, of the kind of enterprise which the American republics have declared to be inimical to their security, and have agreed to purge of Axis influence. For these reasons, you and your staff have energetically sought to bring about the sale of this railroad against blocked funds, and in this effort, you have received the firm support of the Department. For us to reverse our position at this point, and, in effect, to sanction action by the Venezuelan Government which would permit the local agents of the railroad to make foreign exchange available to the Axis, would, I am convinced, irreparably prejudice the integrity of economic controls in Venezuela by furnishing an undesirable precedent that could be exploited by Axis firms as a reason for their being freed from any controls that now exist or may be established.

Finally, I cannot believe that the choice lies inescapably between leaving the railroad in Axis hands and making free funds available to the German owners, for I am confident that both evils can be avoided if the Venezuelan Government is prepared to exercise its sovereign power in order to discharge its Inter-American commitments.

We have not been unmindful of the difficulties to which Dr. Parra Pérez makes reference. Both in the Department's instruction no. 1732 of February 23, and in Mr. Acheson's conversation with Dr. Escalante, the possibility of driving down the valuation of the railroad in forced transfer proceedings by the use of the Proclaimed List was suggested for the consideration of the Venezuelan Government. I am enclosing for your information copies of the memorandum which was handed by Mr. Acheson to Dr. Escalante,⁸⁵ and the memorandum of their conversation.⁸⁶ We appreciate as well the problem raised by the nominal Spanish ownership. We have faced that problem repeatedly in this country, and have never permitted formal devices involving nationals of friendly countries, or even co-belligerent countries, to prevent our taking whatever steps were required by our security and the security of the hemisphere. Venezuela has pledged herself, through the Rio and Washington Resolutions, to do no less.

I realize that it is a matter of great delicacy and difficulty to reject this request. However, I am confident that if you will present these considerations again to Dr. Parra Pérez, he will understand the impossibility of our taking any other course, and will appreciate as well the imperative necessity for Venezuela's taking appropriate measures against the railroad.

Believe me, with kindest regards,

Very sincerely yours,

SUMNER WELLES

⁸⁵ Dated March 2, p. 823.

⁸⁶ Not printed.

840.51 Frozen Credits/10346

*The American Chargé in Venezuela (Flack) to the Venezuelan Minister for Foreign Affairs (Parra-Pérez)*⁸⁷

No. 1299

CARACAS, April 26, 1943.

EXCELLENCY: I have the honor to refer to Your Excellency's esteemed note No. 02005-E of April 14, 1943, concerning the contemplated remittance of certain funds to the Swiss Government for use in paying municipal taxes in Paris on the property of four Venezuelan citizens named in the note cited.

The inquiry of the Venezuelan Government was communicated to the Department of State and I am now in receipt of the reply informing me that for the following reasons the State Department considers it very undesirable that the remittance be made:

(a) It would furnish to the enemy badly needed foreign exchange and involve a direct contribution to the enemy;

(b) Although the amount in this case is small, a dangerous precedent would be established if the contemplated remittance were to be made.

(c) It is the view of the State Department that the remittance would not be in consonance with Resolution No. 1 of the Washington Conference. The State Department added that in view of its commitment under the Resolution cited, the United States Government does not allow remittances for purposes of this nature to be made by its own citizens.

In communicating to Your Excellency the above expressed views of the Department of State, I have been requested to add that accordingly my Government does not find it possible to authorize the use of its facilities for the remittance contemplated and at the same time to express to Your Excellency the hope of my Government that upon re-examination of the matter in the light of the Washington Resolutions, the Venezuelan Government may find it possible to reconsider its position.

Please accept [etc.]

JOSEPH FLACK

740.00112A European War 1939/24302 : Airgram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, April 27, 1943—6:45 p. m.

A-537. Reference is made to the Department's airgram A-164 of October 26, 1942 and to the Embassy's despatch no. 3853 of January 23, 1943.⁸⁸ The Department would appreciate your transmitting a re-

⁸⁷ Copy transmitted to the Department by the Chargé in Venezuela in his despatch No. 4368, May 5; received May 10.

⁸⁸ Neither printed.

port of the results of the study undertaken by the Embassy to determine which of the Proclaimed List nationals to whom American oil companies are furnishing domestically manufactured products are not essential to the Venezuelan economy.

The Department notes that in the despatch under reference the Embassy states that a study has also been made relative to the Proclaimed List nationals which are deemed essential to the Venezuelan economy, and to which oil products are being furnished, with a view to formulating recommendations for more effective controls that might be applied in each case. Please transmit to the Department a report on this study.

HULL

740.00112A European War 1939/30305

The Chargé in Venezuela (Flack) to the Secretary of State

No. 4355

[CARACAS,] May 5, 1943.

[Received May 10.]

SIR: I have the honor to refer to the Department's airgram No. A-399 of February 22, 6:30 p. m., and to Embassy's despatch No. 4083 of March 3, 1943⁸⁹ which answered in part this airgram.

As stated in the despatch under reference, the question of ascertaining the interests held by Blocked Nationals in the Banco de Venezuela, La Previsora, and several other banks is very difficult if not impossible to determine, as the shares of these enterprises are bearer shares.

As the fiscalization reports of Proclaimed List firms by the Venezuelan Government do not show the interests held by individuals or firms in local enterprises, and as the Proclaimed List firms have been reluctant to give Venezuelan Authorities the information desired by the Embassy, it has been next to impossible to obtain the desired information.

If, in the future, some of the information wanted is obtained, the Department will be advised immediately.

Respectfully yours,

JOSEPH FLACK

831.77/151a : Telegram

The Secretary of State to the Chargé in Venezuela (Flack)

WASHINGTON, May 11, 1943—9 p. m.

338. Further discussions between Ambassador Corrigan and officers of the Department have developed the following considerations with respect to the German Railroad: (1) Because of the strategic location

⁸⁹ Neither printed.

of the German Railroad, whose lines run along the seacoast at an average distance of 20 miles inland, the Axis may be using the Railroad to obtain information regarding ship movements. (2) More important, subversive elements may be using the special communication facilities of the Railroad to transmit information relating to ship movements in order to guide U-boat attacks against our shipping. (3) In connection with its purchase of the German Railroad, the Venezuelan Government would probably remove the undesirable personnel, thereby eliminating the Railroad's espionage activities.

In view of the foregoing, it has been suggested that the purchase of the Railroad by the Venezuelan Government, even though against free currency in Europe, would promote the war effort. The Embassy is well aware of the compelling considerations which have militated against our approving such a sale. In order to permit the balancing of the espionage aspects against the other aspects of the proposed transactions, it is requested that the Legal Attaché, the Naval Attaché and the Military Attaché prepare promptly a joint report on the following points: (1) Evidence relating to the actual use of the Railroad for espionage purposes, including the means used to transmit information relating to ship movements. (2) Evidence indicating the particular personnel within the Railroad responsible for espionage. (3) Whether Axis intelligence within Venezuela would be able effectively to obtain and transmit the information regarding ship movements through facilities other than the German Railroad (e.g. through port observers, et cetera) if the Venezuelan Government removed undesirable personnel. (4) The specific Railroad personnel whom the Venezuelan Government should be requested to dismiss in connection with any possible approval of the purchase in question. (5) Any other conditions which should be suggested to preclude the use of the Railroad for subversive purposes. (6) Any other pertinent information.

In connection with this report, it should be observed that the Department's files contain no information regarding actual espionage activities by the Railroad. Accordingly, full documentation is requested.

HULL

740.00112A European War 1939/30776

The Chargé in Venezuela (Flack) to the Secretary of State

[Extracts]

No. 4383

CARACAS, May 11, 1943.

[Received May 17.]

SIR: I have the honor to refer to the Department's Airgram No. A-164 dated October 26, 1942, 6:35 p. m., Embassy Despatch No. 3853

dated January 23, 1943,⁹⁰ Department's Airgram No. A-537 dated April 27, 1943, 6:45 p. m. relative to the matter of American Oil Companies or their subsidiaries being obliged to furnish domestically processed products to Proclaimed List Nationals.

Although conditions prevailed in 1942 prompting the licensing of American Oil companies or their subsidiaries in Venezuela to furnish domestically processed products to Proclaimed List Nationals, it was anticipated that effective control as contemplated by Resolutions V and VII adopted at the Washington Conference on Systems of Economic and Financial Control would solve the problem. Such hopes were ill founded and efforts toward more effective control unavailing, so much so that in January, 1943, the Embassy was obliged to permit the sale of fuel oil to Gustavo Zingg y Cia., (PL) Maracaibo, in excess of its monthly allowable amount based upon statistics beginning in January, 1939. (See Embassy Despatch No. 4003 of February 13, 1943.)⁹¹

It appears that little can be said for continuing the practice of licensing the sale of domestically manufactured products to those persons and firms not essential to the local economy and the present licensing practice to those enterprises which may be considered essential to local economy is hardly satisfactory in that there is no effective control over these firms under existing Venezuelan Decrees, nor is there the disposition to forcibly eliminate the undesirable interests therefrom. . . .

Respectfully yours,

JOSEPH FLACK

740.00112A European War 1939/30718: Telegram

The Chargé in Venezuela (Flack) to the Secretary of State

CARACAS, May 15, 1943—7 p. m.

[Received May 16—5:12 a. m.]

454. Embassy's A-126, March 26, 10:30 a. m.⁹² Department's reply urgently desired as local insurance situation continues entirely unsatisfactory and a serious impediment to effective control efforts in other

⁹⁰ Neither printed.

⁹¹ Not printed.

⁹² Not printed; it referred to British reinsurance of Proclaimed and Statutory business carried on by the banking firm of La Previsora and urged that if the Department could not obtain British agreement to earliest possible termination of reinsurance of Proclaimed List business, Previsora be considered for inclusion on the Proclaimed List (740.00112A European War 1939/27866). For a further report regarding this firm, see despatch No. 4699, August 7, from the Ambassador in Venezuela, p. 844.

directions, particularly curtailment of normal banking accommodation to Proclaimed List firms. Again strongly urge action as suggested in its A-126.

FLACK

840.51 Frozen Credits/10536

The Chargé in Venezuela (Flack) to the Secretary of State

[Extract]

No. 4424

CARACAS, May 25, 1943.

[Received May 29.]

SIR: I have the honor to refer to the Department's Instruction No. 1496 dated November 10, 1942, with which was transmitted a study⁹³ of the extent to which the Venezuelan decrees governing enemy property and activity comply with the Resolutions adopted by the Inter-American Conference on Systems of Economic and Financial Control held in Washington June 30-July 10, 1942, prepared by Mr. Covey T. Oliver.⁹⁴ The Embassy finds this excellent study to be very accurate and helpful. Relative to the desirability and likelihood of obtaining changes in Venezuelan law of the sort needed to bring it more completely into harmony with the Conference Resolutions, reference is made to Embassy Despatch No. 3690 dated December 28, 1942;⁹⁵ since that time there has been no legislation nor Executive decrees in this regard and the administration of the Venezuelan Executive decrees of December 11 and 16, 1941, remains as unsatisfactory and ineffective as heretofore reported. A brief review of some of the salient cases in Venezuela, in substantiation of the foregoing statements, is given below:

Granting of Normal Credits and Banking Facilities to Proclaimed List Nationals by Commercial Banks:

Letter from Mr. Groves to Superintendent of Banks dated March 16, 1943, suggested that such banking facilities be terminated. (See Embassy Despatch No. 4160 dated March 17, 1943.) This matter was promptly but *unofficially* brought to the attention of the Banking Council by the Superintendent of Banks, because the Federal Executive preferred not to give official recognition to any action taken by the banks as a result of the communication. Refusal of official cognizance to this situation, but fear of the consequences that might attend inaction on their own part, led the banks to sign an agreement between

⁹³ Neither printed.

⁹⁴ At the time of preparing this study, Oliver was the Liaison Officer for the Board of Economic Warfare with the Department's Foreign Funds Control Division. His work concerned the Proclaimed List and freezing controls.

⁹⁵ Not printed.

themselves to terminate all commercial banking relations with Proclaimed List Nationals. The Federal Executive in an indirect way has recognized the banks' action directed against the Proclaimed List firms by authorizing the Banco Central, the Banco Obrero and the Banco Agrícola y Pecuário—all Governmental institutions—to become signatories to the agreement.

Although some of the banks have indicated that prior to the communication from the Embassy, they had undertaken to reduce their commercial banking transactions with Proclaimed List Nationals, the ever present sanctions of curbing their banking relations with New York banks is undoubtedly the controlling influence in what may be accomplished. Under the agreement signed by all banks, their credit facilities to Proclaimed List Nationals will be gradually reduced over a period of nine months.

The banks reached an agreement in principle on this question over a month ago, nevertheless the line credits extended to the Proclaimed List Nationals have not yet been reduced one centime, the banks choosing to await actual signing of the contract before beginning to act.

This matter of liberal granting of commercial credits to Proclaimed List Nationals, when considered in the light of specially blocking of accounts, more specifically explained on page 4 of Embassy Despatch No. 3690 of December 28, 1942, creates a rather curious situation; for, although the Embassy is assured that funds paid into "a specially blocked account" are absolutely immobilized insofar as the beneficiary is concerned, the bank, of course, is permitted to use the funds as it sees fit. And although those particular funds as such may not be available to the Proclaimed List National, he is, in most instances, permitted a liberal credit line by the bank without security. For example, the Zinggs have blocked funds in the amount of Bs. 2,856,000 deposited in the following commercial banks of Venezuela: Banco de Venezuela, Banco Mercantil y Agrícola, Banco Caracas and Banco Venezolano de Crédito and they enjoy an unsecured commercial credit line from these several banks in the amount of approximately Bs. 2,000,000.

It is interesting to note that all blocking orders provide that funds are blocked for six month periods, automatically extended until the termination of the war *or until the Federal Executive expressly authorizes that said funds be devoted to some other use*; and that commercial banks, notwithstanding the belief harbored by some that Proclaimed List firms will eventually be forced to close, continue to lend them unsecured credits so that it is only logical to conclude that these commercial banks would have some reason to believe that in the event that a Proclaimed List National were unable to meet his obligation to them, they could prevail upon the Federal Executive to

permit an offset of (blocked) credit and debit. To minimize this possibility, the Embassy has insistently requested that specially blocked accounts be maintained in the Banco Central de Venezuela, but has been unsuccessful in its efforts because of the attitude assumed by the recently resigned Minister of Hacienda (Finance),⁹⁶ notwithstanding the Central Bank's disposition to accept these deposits. The Minister insisted that, although the Central Bank is legally permitted to accept deposits of this nature, there is a gentlemen's agreement between those favoring the Central Bank and those in the commercial banking business who opposed its organization, that it would not accept private deposits. It is not meant to be implied that these commercial credits have been made available since the creation of the specially blocked accounts, because the more important firms in Venezuela which appear in the Proclaimed List have long enjoyed excellent credit rating and commensurate banking accommodation; but it cannot be overlooked that a continued granting of these unsecured credits, despite the existence of restrictive measures—at least on paper—may well be influenced by the fact that the individuals concerned have on deposit with the banks sufficient funds to meet these obligations in the event their normal ability to pay becomes circumscribed.

In considering this subject it should be recalled that the Venezuelan Ambassador to the United States requested the opinion of the Department of State with regard to permitting the investment of Axis funds (evidently meaning those funds paid into Specially Blocked Accounts) in Venezuelan Treasury bills (See Embassy Despatch No. 4119 dated March 15, 1943) which would in effect permit the payment of interest on blocked accounts at the rate of $4\frac{1}{2}\%$ per annum, instead of $1\frac{1}{4}\%$ per annum, the highest rate now paid on specially blocked accounts. To permit such an investment would mean, in effect, that the only penalty suffered by Proclaimed List firms on theoretically blocked funds would be the difference between the return on Treasury bills ($4\frac{1}{2}\%$ per annum) and the interest rate charged for commercial credits ranging from 4% to 9% per annum, according to the firm's credit rating (i.e. a possible profit of $\frac{1}{2}\%$ to a loss of $4\frac{1}{4}\%$ per annum). It is trusted that the Embassy's present effort to have commercial credits to Proclaimed List Nationals completely terminated within a period of nine months will bring forth an accurate statement from the respective banks showing the extent to which these credits exist and the rates of interest charged therefor.

Respectfully yours,

JOSEPH FLACK

⁹⁶ Alfredo Machado Hernandez.

840.51 Frozen Credits/10811

The Ambassador in Venezuela (Corrigan) to the Secretary of State

No. 4502

CARACAS, June 19, 1943.

[Received June 30.]

Subject: Investment in Venezuelan Government Securities of PL
Funds Frozen in Venezuelan Banks.

SIR: I have the honor to refer to the Department's Airgram No. 418 of March 4, 8:00 p.m., and the Embassy's reply by Confidential Despatch No. 4119 of March 15, 1943, both in relation to the above subject.

In a conversation this week between Mr. Groves, of the Embassy Staff, and Dr. Uslar Pietri, Minister of Hacienda, the latter brought up this question and asked what Washington's attitude might be. He pointed out that the Venezuelan Government was anxious to absorb these especially frozen funds of Proclaimed List firms now deposited with various local commercial banks, on the ground that the volume of bank deposits in the country would thereby be reduced with a proportionate reduction in the inflationary influence inherent in increasing deposits. This is the same argument referred to in the Embassy's Despatch No. 4119 (page 2). Dr. Uslar estimated the volume of such especially frozen sums at roughly Bs. 10,000,000, or say, \$3,000,000.

In the discussion which followed, which indicates that the Venezuelan authorities, of course, would freeze the interest payments on any such investments, together with principle in case of repayment, Mr. Groves told Dr. Uslar that—for his part—he felt his desire was not unreasonable, since there would be some obvious advantage derived by the Venezuelan Government while the Proclaimed List owner of the funds would obtain an appreciable advantage only through the increase in earned income presumably realizable after the War. Dr. Uslar was assured that his inquiry would be transmitted to Washington for comment by the appropriate authorities.

The only Venezuelan Government securities now available for such investment are two issues of short-term (six and nine months) 4½% Treasury bills, which were put out some months ago in an aggregate amount of about Bs. 9,000,000. Dr. Uslar stated that the further issue of similar securities will be authorized by Congress for emission during the current fiscal year. It is in these forthcoming issues that the Government would like to place the frozen funds here in question.

While it seems quite probable that the Proclaimed List owners of the frozen funds would welcome the investment of these funds in the Government securities, as the Department suggests in its Airgram No. 418 mentioned above, nevertheless it is believed that the Government is justified in its own expressed desire to see these funds more effectively immobilized for the duration of the War.

The Embassy would appreciate the Department's comment on this matter for the benefit of the appropriate Venezuelan authorities.

Respectfully yours,

FRANK P. CORRIGAN

831.77/156

The Ambassador in Venezuela (Corrigan) to the Secretary of State

No. 4536

CARACAS, June 19, 1943.

[Received June 30.]

SIR: I have the honor to report that immediately upon my return to Caracas the Foreign Minister called me to the Chancellery to discuss the latest developments in the purchase of the Caracas-Valencia Railway.

He handed me a memorandum, copy and translation of which are enclosed,⁹⁷ in which is incorporated the report of the Venezuelan Minister at Madrid, which states that the Spanish Government has given full guarantee that the funds obtained from the sale of the Railway will be blocked in Spain during the time fixed by the interested parties, and that these funds may be invested in Spanish securities of the type which the Instituto de Moneda has established for cases of blocking.

The Minister informed me that this undertaking on the part of the Spanish Government had been secured after a considerable amount of diplomatic effort and it was hoped that the arrangement indicated would be satisfactory to the American Government, so that the Venezuelan Government might proceed immediately with its plan to make an outright purchase and avoid complications that might arise out of its acquisition by other means.

I then asked him what would be his attitude toward the undesirable personnel, German nationals, who now operate the railroad and he assured me that all such elements would be eliminated.

The Department has been fully informed by previous despatches and by recent conversations on the subject while the Ambassador was in the Department of the Embassy's opinion of the actual or potential danger of leaving this strategic stretch of railroad under the control of enemy nationals. It is hoped that the steps taken by the Venezuelan Government to assure blocking of the funds in Spain will be acceptable to the United States Government.

I would appreciate receiving the Department's early reply to enable me to inform Dr. Parra-Pérez promptly thereof.

Respectfully yours,

FRANK P. CORRIGAN

⁹⁷ Not printed.

831.77/155

The Ambassador in Venezuela (Corrigan) to the Secretary of State

No. 4545

CARACAS, June 24, 1943.

[Received June 29.]

SIR: In view of the interest in expediting action on the question of acquisition of the Caracas-Valencia (so called German Railway) by the Venezuelan Government, I have the honor to enclose three copies of a memorandum dated May 23 [24], 1943⁸⁸ prepared by the Legal Attaché of the Embassy. There is also enclosed a copy of a further memorandum dated June 23, 1943,⁸⁸ from which it appears that the railway is now being operated at a profit.

It will be noted from the Legal Attaché's report of May 23, 1943 and from the joint report enclosed with the Embassy's despatch no. 4455 of May 28, 1943⁸⁸ that of the 30 aliens known to be employed by the railway 26 are nationals of countries at war with the United States. The mere fact of the existence of this nucleus of alien enemies in the railway's personnel, irrespective of the known individual pro-Nazi sentiments set forth concerning certain persons whose activities are of record in the report cited, is a menace of sufficient importance in itself to justify our Government in taking all possible action to enable the Venezuelan Government to gain title to the railway and eliminate this undesirable personnel. In this connection reference is made particularly to my despatch no. 4536 of June 19, 1943 in paragraph four of which I recorded the assurance given by the Foreign Minister.

Respectfully yours,

FRANK P. CORRIGAN

831.77/157 : Telegram

The Ambassador in Venezuela (Corrigan) to the Secretary of State

CARACAS, July 12, 1943—3 p. m.

[Received July 13—1:05 a. m.]

618. My despatch 4536, June 19, and 4545, June 24, concerning Venezuelan Government's desire to purchase the Caracas-Valencia railroad. President Medina, this morning, personally expressed to me his anxiety over the delay in the solution with regard to this railway and reiterated that its purchase now would save the Government 25 to 30 million bolivars and that the funds in payment would be blocked in Spain.

Please instruct me urgently by cable, so that I can inform the President before he departs on July 17, for a 3 weeks' visit to Bolivarian countries.

CORRIGAN

⁸⁸ Not printed.

831.77/157 : Telegram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, July 14, 1943—7 p. m.

486. Your despatch 4536, June 19, and 4545, June 24, and your telegram 618, July 12. The Department has just informed the Venezuelan Embassy that it cannot approve the use of United States facilities to transmit funds to Spain in connection with purchase of German Railroad. Resolution 6, paragraph 4, adopted at the Washington Conference contemplates that enemy assets shall be blocked in banks under the jurisdiction of the respective governments of the Western Hemisphere, and the Department does not feel that Venezuela can appropriately delegate its responsibility for blocking enemy assets to a European neutral.

For your information, the Department is unwilling to create a precedent of blocking in European neutral countries; Treasury has indicated that it will not license the remittance; so substantial an increase in Spanish dollar holdings in this country is regarded as disadvantageous to our preclusive purchasing program since the Spanish are presently evincing reluctance to accept dollars in exchange for wolfram and other commodities purchased in Spain, and it is becoming increasingly difficult to secure pesetas.⁹⁹

Embassy's view with reference to security problem has been carefully considered. However, the Department feels that the balance of economic warfare advantage lies with rejecting the Venezuelan proposal. Despatch elaborating the considerations involved and enclosing copy of note to the Venezuelan Embassy follows.

You may indicate to President Medina that the Department is attempting to work out an alternative proposal to make to the Venezuelan Government with reference to the transfer of the Railroad that will avoid difficulties with respect to any bona fide pre-war Spanish interests in the Spanish holding company.

HULL

831.506/13

The Ambassador in Venezuela (Corrigan) to the Secretary of State

No. 4699

CARACAS, August 7, 1943.

[Received August 12.]

SIR: I have the honor to refer to the Department's Circular Instruction of July 1, 1943,¹ on the subject of elimination of enemy influence

⁹⁹ For correspondence on United States efforts to get Spain to embargo wolfram to Germany, see vol. II, pp. 632 ff.

¹ Not printed.

from insurance, requesting the Mission's careful consideration of the proposals set out therein and its views thereon.

Although the Embassy endorses the proposals listed in the Instruction under reference, a hurried and superficial survey of the insurance situation in Venezuela reveals that few of the objections pointed to by these proposals exist in Venezuela. It is recalled that the most offensive condition in the insurance field with regard to our Economic Warfare Program was recently settled satisfactorily when Cia. Nacional Anonima de Seguros "La Previsora", that reinsured with British Companies, cancelled all existing fire insurance policies with Proclaimed List Nationals (See Embassy Despatch No. 4580 dated July 7, 1943).²

The concrete proposals submitted in the Instruction under reference are considered in their respective order, to wit:

1: The survey made indicates that in Venezuela there are no insurance and reinsurance transactions with companies which operate directly from enemy territory or with companies in enemy territory which operate through agencies in this hemisphere.

2: There are no persons or firms in the insurance business in Venezuela who are included in the Proclaimed List of Certain Blocked Nationals.

3: From the brief survey made, it would appear that the problem with neutral European companies does not present itself in Venezuela.

4: This proposal will most nearly meet the problem in the insurance field which presents itself in Venezuela, and the obtaining of undertakings from non-listed companies by which they will agree not to insure any persons on the Proclaimed List or any property in which such persons have an interest is particularly endorsed, and it might be suggested that the form of Undertaking include the provision to cancel all such existing insurance as soon as possible.

In the dealings recently consummated and reported in Embassy Despatch No. 4580 dated July 7, 1943, by which Cia. Nacional Anonima de Seguros "La Previsora" cancelled existing fire insurance policies with Proclaimed List Nationals, it was learned that by this Company's Policy No. 12926 it had insured a building in Caracas belonging to "Hauck" S.A. (PL) for the amount of Bs. 200,000., the policy designating the Banco Venezolano de Crédito as beneficiary in view of the fact that "Hauck" S.A. (PL) had mortgaged the building to this Bank to secure a loan in the amount of the policy. A similar problem presented itself in the case of the Policy No. 11462 by which a building in Valencia belonging to Giugni y Cia. Sucrs (PL) was insured for Bs. 150,000. which policy names the Banco Industrial de Venezuela as beneficiary, this building having been mortgaged to the Bank to secure a loan in the amount of the policy. The Embassy is now giving these problems its study because, although the beneficiary in the policy is not a Proclaimed List National, nevertheless in the event of loss, a Proclaimed List National will benefit indirectly.

Another problem now receiving the Embassy's study, which falls

² Despatch not printed.

in this category, is the matter of trucking companies obtaining floating insurance policies from local insurance companies for goods shipped from point to point within the Republic, particularly goods moving between Caracas and Maracaibo, Venezuela, because, in many instances, the truckers move goods belonging to Proclaimed List Nationals which are covered by these policies and it is difficult for the insurer to have knowledge thereof.

5: It would not appear that this proposal is applicable to the insurance situation existing in Venezuela.

It is not anticipated that any additional personnel may be needed to carry out these proposals in Venezuela.

Respectfully yours,

FRANK P. CORRIGAN

840.51 Frozen Credits/10811

The Secretary of State to the Ambassador in Venezuela (Corrigan)

No. 2116

WASHINGTON, September 1, 1943.

The Secretary of State refers to the Embassy's despatch no. 4502, June 19, 1943, with regard to the investment of blocked accounts in Venezuela in Venezuelan government bonds, and to the enclosed memorandum of conversation³ between officers of the Department and Senor Lares⁴ of the Venezuelan Embassy. It will be noted from the memorandum of conversation that various questions were raised with Sr. Lares as to the nature of the proposed transaction. It was pointed out to Sr. Lares that the Department would be able to express a more useful opinion on the matter if it knew the purposes the Venezuelan Government had in mind in wishing to effect a conversion of blocked accounts into government bonds, and the exact nature of the proposal.

The Venezuelan Embassy has not approached the Department again with reference to this proposal. However, since officials of the Venezuelan Government have brought the matter to the attention of officers of the Embassy in Caracas, it is believed that it may be appropriately pointed out that the Treasury Department practice here permits the investment of blocked accounts in Government securities. For the Embassy's information, it also permits investment in private securities listed on the national stock exchanges.

In view of the fact that Venezuelan controls are by no means as adequate as those adopted in this country, the Department does not feel that the cases are parallel. However, in view of the Treasury practice noted above, there seems to be no basis on which this Government can object to the proposal, provided that the principal and any interest accruing thereon will remain effectively blocked for the duration of the war.

³ Memorandum not printed.

⁴ Arturo Lares, Counselor of the Venezuelan Embassy.

In as much as there would seem to be a definite advantage to the owners of specially blocked accounts in investing these accounts in government securities which carry a higher rate of interest, it is suggested that comment be withheld until the Venezuelan Government renews its inquiry, if in the Embassy's judgment, this is possible.

740.31112A/46

The Ambassador in Venezuela (Corrigan) to the Secretary of State

No. 4919

CARACAS, September 28, 1943.

[Received October 2.]

SIR: I have the honor to refer to my telegram No. 870, September 24, 8 p. m.⁵ reporting the protest of the Venezuelan Government against the activities of Messrs. Freeman and Andersen in connection with Proclaimed List publicity in the Andean States. A copy of the Foreign Office's memorandum No. 2241, dated September 13, 1943, transmitting this protest, is enclosed ⁶ for the Department's information.

It will be noted that the charges made are:

1) The Government of Venezuela has in its possession reports from official sources that in the month of July of the current year, the foreigners Arne Andersen, born in Denmark, and Alton Vernet Freeman, born in the United States of America, both saying they were functionaries of the Embassy of the United States of America in Venezuela, went to the States of Mérida and Táchira where they visited commercial firms in various localities and carried out investigations in connection with the so-called "black lists".

2) The above-mentioned Messrs. Andersen and Freeman asked of certain merchants, among other information, the presentation of invoices and business record books and announced to them that they would be included in the cited "black lists" in the event that they carried on commercial dealings with specific German and Italian firms. Intervention was carried to the extreme point of requesting the suppression of commercial advertising signs which some of the establishments visited were exhibiting.

The Ministry for Foreign Affairs observes that, in carrying on the activities above described, the foreigners mentioned, attributing false prerogatives to themselves, have infringed stipulations of the Venezuelan law. As a consequence, the National Government is studying measures leading to the punishment of the acts set forth.

As stated in my telegram under reference, this whole matter has been given personal study and investigation and I have come to the following conclusions both as to the facts of the case and the underground political pressure that gave rise to the formal protest received.

In the first place, Mr. Freeman of the Embassy undertook this pub-

⁵ Not printed.

⁶ Memorandum not printed.

licity trip with the full knowledge and consent of the Counselor of Embassy for Economic Affairs, although the Chancery of the Embassy was not advised thereof nor consulted as to the political desirability of such direct investigation. From prior information regarding conditions in the Andean States and from the results of the investigations made and the publicity given to the Proclaimed List in consequence of this trip, however, it is not too much to say that the prosecution of Economic Warfare in these outlying regions, which have remained the stronghold of German and Italian influence, has become a reality to the commercial interests located there which, up to now, had been largely ignorant or scornful of our efforts in this highly important line of war activity.

From the reports of Mr. Freeman, which I have gone over carefully, and from conversations with him in the light of the Venezuelan protest, it does not appear that he went beyond the scope of his instructions. His visit was one of explanation and clarification to those friendly firms that, through unawareness of the scope and implications of the Proclaimed List, had placed themselves under suspicion: it gave publicity to the List and brought to our numerous enemies working in the Andean region a clear-cut knowledge that their actions were neither unknown nor overlooked.

Mr. Freeman carried out his duties with considerable zeal. He sought cooperation and received it fully in the vast majority of instances. He states that at no time did he require merchants to show their books or invoices and always sought to refuse offers to show them. The "suppression of commercial advertising signs", referred to by the Foreign Office, arose from the logical statement to merchants who denied dealing in black list products that a "Bayer" sign outside their stores gave other implication. The only signs removed or painted out were Bayer signs.

With regard to the alleged "false prerogatives", Mr. Freeman is an employee of the Embassy staff and was traveling under authority of the Counselor for Economic Affairs on Embassy business and made it publicly known that this was the case. I am convinced that Arne Andersen is an innocent victim of his association with Freeman. It does not appear that he ever claimed any connection with this Embassy or the United States Government on his own behalf. True, he traveled with Freeman in a car having diplomatic license plates, but his reasons for the trip were of a private business nature and to accompany a friend. We owe him whatever informal support that can be properly given.

As the matter now stands a decree of expulsion has been promulgated against Andersen and the Foreign Office has informally indicated that it would be well to transfer Freeman to another post.

I have so far answered the Foreign Office memorandum with a statement that I am making a personal investigation of the case. I fear that the expulsion decree against Andersen will stand since it has already been published in the *Official Gazette*. I understand that the Danish Legation in Washington is being informed and that they may request our good offices in the matter. I should be glad to take up his case if instructed to do so by the Department.⁷

Respectfully yours,

FRANK P. CORRIGAN

831.77/159a : Airgram

*The Acting Secretary of State to the Ambassador in Venezuela
(Corrigan)*

WASHINGTON, October 1, 1943—4:30 p. m.

A-923. The Department quotes below a telegram, as paraphrased, that the American Ambassador at Madrid directed to the Department as a preliminary reply to its request for information concerning the German-controlled Spanish holding company that owns the Gran Ferrocarril de Venezuela:

"The absence from Madrid of the Venezuelan Minister, officials of the company, and Spanish officials has delayed an answer to your #1524 of July 13.⁸

In about 1924 the firm was registered in Spain with a capital of 21,000,000 pesetas, and ownership of shares is difficult to trace since they are to bearer. The firm's general manager is still absent, and that individual is apparently the only one with any knowledge of the shares' ownership. Ignorance of the bona fide Spanish ownership is professed by the vice-president, but he estimates that about one-third of the shares are owned by Germans.

"It is the opinion of the Secretary of the Venezuelan Legation⁹ that by the demand of the Venezuelan Government, the ownership of the shares could be ascertained in Venezuela. The Secretary states that the Venezuelan Minister,¹⁰ who is still absent from Madrid, was informed by the Spanish Government that provided it is agreed to block here for the duration sums owed [*owed?*] to enemy nationals and provided the purchase price is remitted to Spain, there would be no objection on the part of the Spanish Government to the Venezuelan Government's purchase of the railroad. I am informed by Huete,

⁷ The expulsion decree appears to have remained in force, and on November 18, 1943, Ambassador Escalante advised that Freeman was *persona non grata*. Both men returned to the United States promptly. Officials of the Division of the American Republics, Foreign Service Personnel, and the Division of World Trade Intelligence conferred on the situation and indicated in a memorandum of conversation of December 1, 1943, that Freeman's conduct was approved in the Department of State, and that Andersen was blameless. Freeman was assigned to the Embassy in Panama, February 24, 1944.

⁸ Not printed.

⁹ Eduardo Marturet.

¹⁰ Cristóbal Benítez.

(head of the Spanish Foreign Exchange Institute) who participated in the discussions, that interest in the firm has not been registered with the Institute by Spanish shareholders. Such registration is provided by the law under which foreign funds of Spanish nationals may be acquired by the Spanish Government. Huete expressed belief that incorporation in Spain is probably a device to avoid taxation or other disadvantages, that Spanish interest is very small, and that Spanish officers named are dummies. I pointed out that under these circumstances Spain was in effect demanding that funds be sent to Spain by Venezuela to reimburse non-Spanish nationals, if it is insisted by Spain that the purchase price be transferred and control be exercised over its disposition. It was stated by Huete that the protection of bona fide Spanish interests is the only interest of Spain.

"When the managing director of the firm¹¹ and the Venezuelan Minister return to Madrid, further investigations will be made. If funds were to be blocked in the United States or in Venezuela, I do not believe stockholders would agree to the sale of property, in view of the hidden interests. I do not believe, on the other hand, that the Spanish Government would be seriously perturbed if the property were expropriated by the Venezuelan Government and it were agreed by that government to pay a fair price which, after Spanish ownership has been revoked, would be distributed to bona fide stockholders. Probably for the duration of the war the determination of such ownership could be delayed. It would probably be insisted by the Spanish Government that payment be effected to Spanish shareholders at the time purchase is effected, and that government would be reluctant to certify concerning ownership on September 1, 1939."

The Department would appreciate a prompt reply to the request in its instruction no. 2055 of July 31, 1943¹² that you comment on the Department's counter-proposal for the elimination of German interests from the Gran Ferrocarril de Venezuela. Any additional information received from Madrid will be immediately directed to you.

BERLE

831.77/162

The Chargé in Venezuela (Flack) to the Secretary of State

No. 5049

CARACAS, November 8, 1943.
[Received November 16.]

SIR: I have the honor to refer to the Gran Ferrocarril de Venezuela (PL) which was included in Supplement 1 to Revision VI of the Proclaimed List of Certain Blocked Nationals on October 23, 1943, and to review recent developments in this case.

¹¹ Said to have been a Dr. Kessler who operated the business from Berlin; the railroad, nominally owned by Ferrocarriles Sudamericanos of Madrid, was understood to have been actually controlled by Disconte Gesellschaft of Berlin.

¹² Not printed.

After receipt of the Department's Strictly Confidential Instruction No. 2055 dated July 31, 1943,¹³ in which the Department detailed the considerations leading it to the conclusion that the balance of economic warfare advantage lay with rejecting the Venezuelan proposal to purchase this railroad for funds to be blocked in Spain, the subject railway company has repeatedly been the topic of discussion between Mr. Groves, Counselor of Embassy for Economic Affairs, and Dr. Arturo Uslar Pietri, Minister of Finance. In August, 1943, Dr. Uslar expressed the personal opinion that the railroad should be included in the Proclaimed List of Certain Blocked Nationals as a step to facilitate action by the Venezuelan Government in forcibly taking over and nationalizing the road. However, at that time he proposed to discuss the matter with President Medina in order to ascertain the latter's view thereon. In early October, 1943, Dr. Uslar was reminded of this matter and expressed regret that a decision had not yet been reached and explained that he had discussed the matter in detail with the President but since final decision involved the Foreign Minister as well as the President, the return of the Foreign Minister, who was temporarily out of the city, must be awaited before final determination of the matter. Dr. Uslar then stated that he would inform Mr. Groves of the decision reached within a few days.

On October 11, 1943, Mr. Groves called on Dr. Uslar at the latter's request and the Minister, after recalling conversations relative to the Railway Company, stated that the road was operating under increasingly difficult conditions and would have to close entirely, perhaps by the end of the year, if necessary supplies were not forthcoming. He also referred to the legal technicality that the road is ostensibly a Spanish corporation, although he did not know exactly what interest therein is actually Spanish. He then requested that the Company be included in the Proclaimed List as soon as this could be accomplished, and, if possible, that the Venezuelan Government be given advance notice thereof to permit it to act simultaneously to take over the railroad and prevent possible sabotage. This request was transmitted to the Department by the Embassy's Telegram No. 927 of October 11, 1943, 3: P. M.¹⁴ The Department's Telegram No. 765 of October 14, 1943, 10: P. M.¹⁴ advised that the inclusion of the railroad in Supplement 1 to Revision VI to the Proclaimed List to be issued October 23, 1943, had been approved by the Interdepartmental Committee and authorized that the Venezuelan Authorities be so informed. In compliance with this authorization, the Minister of Finance was advised of this action by informal note dated October 16, 1943.¹⁵

¹³ Instruction No. 2055 not printed.

¹⁴ Not printed.

¹⁵ Note not printed.

Upon receipt of the information contained in Telegram No. 2882 dated October 7, 1943, from the Embassy at Madrid, quoted in the Department's telegram No. 770 dated October 15, 1943,^{15a} the Embassy inquired of Dr. Uslar whether there had been any development that might cause the Venezuelan Government to desire a change in the plan to announce the listing of the railroad on October 23, (but he was not given the suggestions from Madrid conveyed in telegram No. 770 regarding possibilities of direct purchase.) Dr. Uslar replied that he foresaw no reason to modify the plan but stated that he would confer with President Medina on Wednesday evening (October 20) and would inform the Embassy early Thursday morning whether any change was desired.

On Wednesday evening, October 20, 1943, Dr. Uslar telephoned Mr. Groves to say that he had discussed the matter with the President and if it was still possible, and not too disturbing, they would like to have the publication date postponed four or five days, explaining that there was a difference of opinion among the Venezuelan Government lawyers on certain legal points which they would like to clear up in the meantime. Mr. Groves stated that he would telephone Washington for a decision early on Thursday morning, (October 21) and expected to have an answer for the Minister by noon. A telephone call to Mr. Francis H. Russell, Chief of Division, World Trade Intelligence, Washington, was completed at 11:30 A.M., October 21, when Mr. Russell advised that the time was now too short to cancel arrangements for publication on Saturday, October 23, and this was communicated to Dr. Uslar by telephone immediately. Dr. Uslar did not seem surprised at the information and, after expressing appreciation, stated that he would advise the President of this fact early in the afternoon, and would telephone again later in the afternoon if there were any further developments.

On Thursday evening, October 21, Dr. Uslar again telephoned Mr. Groves to say that it was of great importance to the Venezuelan Government to have the publication of the German Railroad listing deferred, if at all possible, for several days. He was reminded of the negative answer on this point received in the telephone conversation with Mr. Russell earlier in the day, but Mr. Groves offered to make one further last minute effort in another telephone call to Washington the next day. The morning of October 22, 1943, Mr. Groves again talked with Mr. Russell by telephone and explained Dr. Uslar's urgent request. Mr. Russell stated with more emphasis that it was then impossible to stop publication on October 23. This answer was communicated at once by telephone to Dr. Uslar who again indicated no surprise and expressed thanks for the effort.

^{15a} Not printed.

On Saturday, October 23, the three Ministries concerned, by Resolution published in the *Gaceta Oficial*, No. 21,237, subjected the railroad to the provisions of article 4 of the Executive Decree of December 11, 1941, and to paragraph *a*) of article 3 of the Decree of December 16, 1941, which in effect blocked bank accounts of the railroad and placed it under the Venezuelan interventor system. A copy of this Resolution with translation is transmitted herewith.¹⁶ (It is understood that the railroad now has on deposit in Venezuelan Banks approximately Bs. 440,000.)

On October 26 Mr. Groves called on Dr. Uslar by appointment to ascertain what steps the Venezuelan Government proposed to take looking to the nationalization of the railroad and the elimination of the undesirable elements now connected with it. Dr. Uslar explained that although there were several legal possibilities for attaining the objective, the President of the Republic had decided the procedure should be that the oil companies should not furnish any additional fuel to the railroad for the present; its present supply would be exhausted in about two weeks, at which time it would be obliged to cease operations, and under its franchise would then forfeit all rights and could be taken over by the Government. The oil companies were immediately advised—at the request of Dr. Uslar—that they would not be licensed to furnish petroleum products to the Gran Ferrocarril de Venezuela.

The Embassy now awaits developments under this procedure and is presently making a thorough study of all personnel connected with the railway, so that when the occasion presents itself, it will be in a position to inform the Venezuelan Government as to which of those persons connected with the railway company are considered undesirable.

The Department will be kept informed of further developments.

Respectfully yours,

JOSEPH FLACK

831.77/160 : Telegram

The Chargé in Venezuela (Flack) to the Secretary of State

CARACAS, November 14, 1943.

[Received November 14—7 : 23 p. m.]

1060. By executive decree dated November 13th, 1943, federal executive order expropriation of Gran Ferrocarril de Venezuela pursuant to decree of November 9th, 1943, immediate possession was taken of railroad and operation of same place under Ministry of Public Works. Decree contemplates indemnization based upon opinion of experts and in accordance with existing law.

¹⁶ Not printed.

Urgently recommend deletion ¹⁷ of railway company in supplement to be published November 20.

FLACK

811.51/6274 : Airgram

The Secretary of State to the Ambassador in Venezuela (Corrigan)

WASHINGTON, December 31, 1943—3 : 20 p. m.

A-1095. Reference your telegram no. 880, September 27, 8 p. m., and despatch nos. 4238, April 5 and 4880, September 28,¹⁸ concerning Venezuelan decree no. 152 of July 3, 1942 and the amendment thereto authorizing the Asociacion Norte Americana de Venezuela to convert United States currency, in compliance with Articles VI and VIII of the decree, on behalf of members of the American Armed Forces.

Treasury states that it does not anticipate any undue delays in the release of such dollar currency sent to the United States for collection by the Banco Central provided that (1) the Embassy is satisfied with respect to the reliability of the Asociacion Norte Americana de Venezuela, (2) the amounts of such currency will continue to approximate those amounts previously purchased from members of the American Armed Forces and sent to the United States for collection, and (3) such shipments are accompanied by the Embassy's certification stating that the currency forwarded for collection was acquired by the Asociacion Norte Americana de Venezuela solely from members of the United States Armed Forces who in transit through Venezuela did not have time to comply with the local law.

HULL

AGREEMENT BETWEEN THE UNITED STATES AND VENEZUELA REGARDING THE HEALTH AND SANITATION PROGRAM, EFFECTED BY EXCHANGE OF NOTES, SIGNED AT CARACAS, FEBRUARY 18, 1943

[For text of notes, see Department of State Executive Agreement Series No. 348, or 57 Stat. (pt. 2) 1126.]

¹⁷ From the Proclaimed List.

¹⁸ None printed.

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¹ In indexing persons the intention has been to include all references to persons of significance for an understanding of the record, with the following exceptions: (1) The name of the Secretary of State or the Acting Secretary of State appearing as the signer of outgoing instructions unless there is a clear indication of the Secretary's or Acting Secretary's personal interest; (2) the name of an American officer in charge of a mission appearing as the signer of reports to the Department of State, except for personal items; (3) the names of persons to whom documents are addressed.

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